CHALLENGE

THE MAGAZINE OF ECONOMIC AFFAIRS

Volume 7

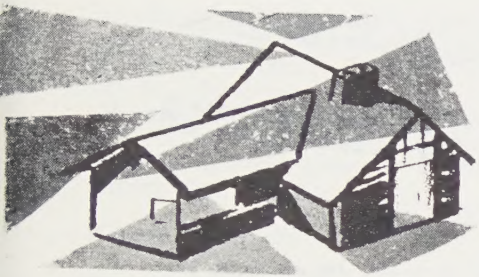
1958-1959

Reprinted with the permission of the
Institute of Economic Affairs, New York University

KRAUS REPRINT CORPORATION
NEW YORK
1967

Copyright, 1958-59, by the Institute of Economic Affairs

Printed in U.S.A.



CONTENTS

OCTOBER 1958
Vol. 7, No. 1

The colors and shapes of the New Capitalism as reflected in the kaleidoscope by artist WALTER FERRO.

The Faces of New Capitalism ..... DAVID FELIX 8
Power by Purchase ..... ARTHUR W. SMITHIES 14
The Engineering of Power ..... SARAH V. THORELLI 20
The Need for Fruitful Conflict ..... PAUL J. STRAYER 26
The Demands on Government ..... JOHN P. LEWIS 31
Making Economic Policy Work ..... STEPHEN W. ROUSSEAS 37
Financing the Future ..... JOHN G. GURLEY 45
Bargaining toward Progress ..... PETER HENLE 58
Is American Capitalism Exportable? ..... HOWARD S. ELLIS 64
Capitalism's New Geography ..... RAYMOND F. MIKESELL 70
The "New" Communism ..... DAVID J. DALLIN 80
Rolling Readjustment in Ideas ..... MARTIN BRONFENBRENNER 85

C. Douglas Dillon 51
UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS

Letters to the Editor 2
A Personal Note 4
Challenge Notes 6
Challenge Profile 43
Economics in Action 76
Everyday Economics 91
Reading Report 93
Challenge Quiz 95
Dept. of Better Mousetraps 96

letters TO THE EDITOR

Challenge invites your comments. Address letters to CHALLENGE, *475 Fifth Avenue, New York 17, N. Y.*

Exception

•The article, "How Good are Mutual Funds?" [June-July, 1958] was pretty sad. Mr. Weissman is incredibly naive or his intellectual honesty is questionable.

A number of statements are either false or incomplete, or both. Perhaps the most disturbing aspect is the fact that you let such an article slip by without ascertaining the facts yourself. This failure strikes an almost fatal blow to the prestige of CHALLENGE.

Perhaps the most glaring misstatement is the one which appears to be the focal point. "How has the investor fared? He has averaged slightly less than four per cent annually, a modest return. . . ."

We are enclosing a comprehensive report showing the actual official historical results over the last quarter of a century. Every informed investment advisor, including Mr. Weissman, should be familiar with these results.

WILLIAM B. RUDD, PRESIDENT
Rudd & Company, Inc.
Investment Securities
Sacramento, Calif.

. . . Overruling

My statement regarding the return on investment company stocks is correct. It is improper to consider market appreciation or capital gains dividends as income (as your letter attempts to do). The caption at the head of the article indicates that investment companies have done about as well as the stock market, so the inference must be that if the stock market has advanced, the investment company shares have participated in such an advance. Investment "results" are not the same as investment income.

You have a right to differ with the treatment of the subject. I resent, however, your imputations of my being unfair or intellectually dishonest. What you want is pure selling material, which it is not the purpose of CHALLENGE *to publish.*

R. L. WEISSMAN

Surfeit of slants

•The article, "Farm Surpluses: Liability or Asset?" [June-July, 1958], should be required reading for all thinking people. In particular, politicians and newscasters who are addicted to slanting the truth about the farm situation would benefit.

However, the author could have explained more fully why we have these huge surpluses at the present time. This situation has been

brought about by unrealistic administration of the farm program as set up by Congress. The program was set effectively, but farmers did not comply because of the red tape involved and the lack of understanding of their problems by administrative officials.

CARL PORTZ

Newcomerston, Ohio

Rural rejoinder

•In *Economics in Action* [June-July, 1958] your comment that the farmers are "constitutionally contrary" is an example of urban ignorance. Commenting on the apparent rise in farm income and the failure of food prices to decline, you cite the "inability of the producers to cut costs."

Farmers are constantly cutting costs. Since their product is consistently perishable, a farmer must take the price offered or lose his produce. In the last 10 years, his so-called profit has been about 10 per cent.

J. O. HARVEY

Newtown, Pa.

The reference was to producers in general and not to farm producers in particular; the problem has been pointed up in the durable-goods industry. CHALLENGE *is happy that the farmers were contrary enough to refuse to go along with the industrial recession. More power to such nonconformity!—Ed.*

Facelift

•Your sneering, presumptuous profile on Charles Revson makes little of the cosmetic industry's value. Improving her appearance gives a woman a lift, and if that isn't worthwhile, we might as well dispose of psychoanalysts in the bargain. It is true that Revson's claws are most effective in the savage trade of beautifying, but isn't it a fact that American business is rich in jungles? According to you people, competition plus Madison Avenue implies the sinister.

CLAUDE AUSTIN

Bound Brook, N. J.

Real people

•I find that CHALLENGE is very readable and useful in teaching introductory economics to seniors at Neenah High School. Keep up the interesting articles on great economists. It helps students realize that real people developed the theories they read in economics books.

WILLIAM DUNWIDDIE

Neenah, Wis.

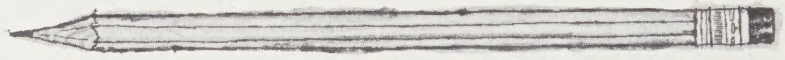
A new elite

•Prof. Lindblom discusses equality with the kind of caution that our egalitarian tradition requires. Nobody seems to admit that all groups and societies are run by elites, however they disguise themselves. If we admitted that, we might produce better elites. We certainly demand a high quality of professional competence in a physicist or a doctor. We should make the same kind of demands on other leaders in society. Our political leaders, for instance, deal with problems that cannot be delimited like those of the scientist. Such questions require elitist qualities like general education, tact and character, and yet anybody can be a politician.

GERALD KLINE

San Diego, Calif.

a personal note



from the editor

Things to look for in the New Capitalism

■ THIS ISSUE OF CHALLENGE contains more than the customary 80 pages. There are two reasons for this: first, the "New Capitalism" which characterizes the American economic system today is a big subject requiring special effort even for partial coverage; second, this is an anniversary issue commemorating the start of our seventh year of publication. The second reason is possibly of no consequence to anyone but ourselves, but the first, we assume, is of vital interest to everyone.

It would be fitting to present in this editorial some clear and concise definition of what we mean by the term New Capitalism, but I must admit that such a clear and concise definition escapes me. Nevertheless, I feel no less incapable in this respect than the vast majority of my fellow citizens. It is much easier to say what the New Capitalism is not. It is not the classical capitalism so well studied in the past and so imperfectly practiced today. What it is remains to be seen. We hope that in this energetic presentation we can catch some fleeting glimpses of what we have become, contributing thereby to the task of understanding what we are.

This *Personal Note* is a prologue to the story that follows. Therefore, we need some hints to stir up interest, and we must make some pertinent introductory remarks to spur that interest with anticipation. We can start with a caveat. If you find us at times critical of the American economic system, do not misunderstand our intentions. We have a constructive purpose, a purpose born out of a devotion to all that is good about our system. Neither the editors of this publication nor the contributors to this issue have the least desire to be destructive or rebellious because they want to talk about our weaknesses as well as our strengths. Adverse criticism can be an expression of love.

I am reminded of the devoted mother who is so often exasperating with her constant attentions: "Don't be lazy. Study hard. Brush your teeth. Watch your manners." Yet, where would any of us be without the exasperation inspired by such implied criticism? Now, I do not wish to imply that our relatively small effort in this issue is intended to have the same influence for good on our economic system as the influence of parental responsibility on the development of an offspring. That would be a poor metaphor, and it would be assuming too much wisdom and responsibility. What we can say explicitly is that we have, for constructive reasons, frequently accentuated the negative aspects of the New Capitalism and left unsaid much of the positive aspects.

In our desire to examine the negative, our efforts were stimulated by the knowledge that (1) popular literature is already replete with materials on our successes, but unusually barren of useful analyses of our failures; and (2) if we become sufficiently aware of the potential danger points in our New Capitalism, we can use the known strengths of our system to avoid unhappy consequences. This would be like saying: "Johnny is not too good at reading, so we had better have his eyes checked or arrange for some tutoring." If Johnny's weakness is not admitted, he would surely be in trouble in his later years. This, then, is the spirit of the critical tone which pervades many of the articles which follow.

There is one other thing. In the majority of the articles which appear in this issue, you will find constant reference to the so-called institutionalization of economic life. You will find reference to such institutionalization in subjects as widely diverse as monetary policy, investment, wages and prices. In fact, it is surprising how small and unimportant the individual seems to be when he is compared with the massive structures that essentially constitute the working parts of our modern economy. I would therefore suggest that while you read the following selected articles on the New Capitalism, you constantly ponder what all that is involved therein means to the individual, and what the individual could or ought to mean to the subjects under discussion. Perhaps you will come to the conclusion that the individual must inevitably be absorbed and therefore become indistinguishable among the massive forces at work. From my point of view this is not only unfortunate, but also not inevitable. Cannot the value orientations of a society preserve the uniquely constructive nature of individual contribution? Ask yourself this as you read.–H.B.

Challenge Notes

No recovery in unemployment; forgetful taxpayers; working at cross-purposes; supply and demand

■ THE SPEED OF our recovery from the 1957-58 recession has come as a pleasant surprise to those economists (a majority) who doubted a fast pickup. Industrial production has recovered, in four months, more than one-third of the ground it had lost in the previous nine months; the housing industry is booming; and the farmer is enjoying a greater degree of prosperity than he has in years. Federal Reserve authorities are apparently completely sold on the recovery and, in their concern over accumulating inflationary pressures, have resumed a "hard money" policy.

Under these circumstances, one would naturally expect that unemployment would be down, reflecting the over-all recovery. Unfortunately, this is not the case. Adjusted for normal seasonal trends, unemployment in August stood at 7.6 per cent of the labor force–equal to the all-time postwar high of October, 1949. While there has been some improvement since then, the employment situation is still far from normal.

The paradox of continuing unemployment in the face of recovery (like the one of "inflationary recession" with which it is closely associated) is, of course, temporary. In the long run, there is every reason to hope that production increases will be reflected in the labor markets, just as price trends last spring did finally reflect declining output.

But the "long run" does not help unemployed workers here and now. Unless the "New Capitalism" learns to eliminate these inflexibilities and rigidities (whose causes are only imperfectly understood), it will fail to attract the widespread support upon which its future depends.

Forgetful taxpayers

A recent study by the National Bureau of Economic Research reveals something that lawyers and accountants have long known: many Americans are less than honest with the Internal Revenue Service. What is less well known

is that this modesty about reporting incomes to the tax collector plays havoc with Bureau of the Census estimates which are based on income tax returns.

Thus, the National Bureau study reveals that 1.7 million people with taxable income never reported it, and more than 4.7-billion-dollars worth of income never got into the statistics.

Now, this is a far better record than in some other countries where census takers automatically assume that as much as 25 per cent or more of incomes is never reported. But it does serve to emphasize something that is too often forgotten in our reliance on statistical surveys—they do depend on the honesty of very nonstatistical human beings.

Cross-purposes

How effective are the government's monetary policies as a means of stabilizing the business cycle?

This question, which virtually dominated economic discussion during the Thirties, has again come to the fore as economists and politicians perform their post mortems on the recession we seem to have left behind us. Since the current Administration has relied almost exclusively on monetary and credit controls to get us out of the recession, this is a good time to ask ourselves whether events have justified such reliance.

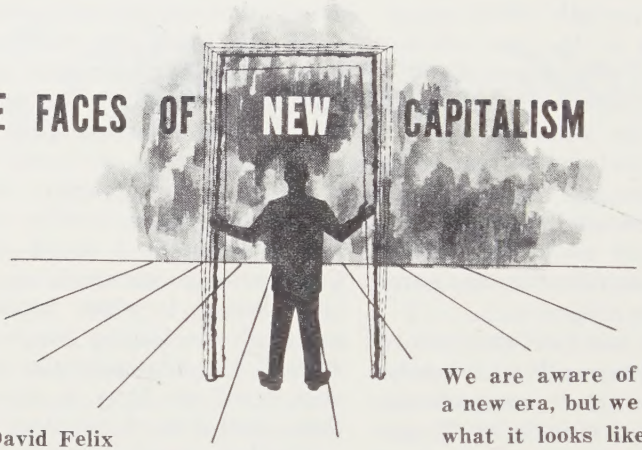
On the whole, we think they have—although government monetary policies certainly did not get us out of the recession. That honor belongs to the consumer who is beginning to buy again, and to the government purchasing agent who is beginning to spend record Congressional appropriations. But by refusing to slash taxes, as many of our leading economists advised, the Administration probably saved us from a stronger than usual dose of inflation.

Whether monetary policy alone will be sufficient to counteract the inflationary effects of an estimated budgetary deficit of 11 billion dollars in fiscal 1959, *without* halting the recovery, is another matter. As long as the Federal Reserve and the Treasury operate at cross-purposes in their credit and debt financing problems, we doubt whether it can be effective. But until we learn how to coordinate the two, monetary policy will not have been given a fair try.

Supply and demand

The latest evidence of an ancient supply-demand situation: when scientist Tibor Helvey recently announced that he was looking for two men and a woman willing to simulate living together on the moon for eight days, there were four times as many women volunteers as men.—M.K.

THE FACES OF NEW CAPITALISM



We are aware of being in a new era, but we are not sure what it looks like

by David Felix

The most intelligent of men, therefore, possess only human images and concepts, taken from a casual point of space and time with a casual sensibility and moral bias. His knowledge is an ideal figment, painted with vegetative oils and dramatized by his private passions. This is just as true of conservatives, who cannot conceive that the authority they recognize could be wrong, as of the most inspired prophets and rebels.

–GEORGE SANTAYANA

■ THE NEW CAPITALISM is a reality and an idea existing in irregular concordance. The complex of images that forms the idea is a discovery of the post-New Deal era; objective changes had preceded it and demanded a new explanation.

We cannot exhaust the meanings of the situation by studying it in terms of a lag between fact and theory; there are great lags within both. All Americans do not exist physically at the same point in time. An Ozark farmer speaks in an Elizabethan idiom and uses agricultural methods that are similarly archaic. Many thousands of small retailers try to compete with the supermarket by means of a 19th-century working schedule. Other disparities are easy enough to find: recondite Du Pont facilities and small machine shops operating in converted garages; an automobile surplus and a chronic shortage of adequate housing, and sophisticated suburban communities growing in pace with slum enclaves of the underprivileged. Business, labor and government thus have physical and ideological elements scattered haphazardly between past and present.

The lags are the inevitable phenomena of a society in rapid change, a dynamic that is loosening but not obliterating identifications. The American worker, for example, is not a self-conscious member of the proletariat, but he does characterize himself as a blue-collar man and cherishes the old underdog connotations of his status. This attitude supplies a useful militancy in union action, and a boilermaker with an income superior to that of a college professor can become an appropriately angry man in the picket line. On the other hand, industry is anticipating a severe shortage of skilled workers because youth prefers the distinctions of white-collar existence despite the inferior pay.

Effective pragmatism

Thus the character and social content of labor are getting more varied as its institutions develop. A union worker in a prosperous industry has more in common with a small entrepreneur than with an unorganized textile operative in the South or with the Puerto Rican member of a "sweetheart union." But the great unions maintain the psychology and language of the underprivileged in their bargaining, an effective pragmatism when applied with a contradictory strength.

If words like "exploitation" and "solidarity" are often inaccurate images, the verbal responses of business are also compounded of irrelevancies. Much of business public relations proceeds from the premise that we are still living in an age of classical economic equilibrium, despite the power of institutions and government. The finance committee chairman of a major corporation could say in 1946, when we were obviously deep into the New Capitalism, that "a mixed economy is a messed economy."

The National Association of Manufacturers has said: ". . . from the point of view of the public welfare, competition serves as a regulator and reducer of prices, as an incentive to improved production efficiency, as a guarantee that we shall get what we want, and as a protector of the freedom of opportunity." The many useful truths in that statement obscure other truths that the NAM prefers to ignore. During the most classical days of atomic competition, the British miner or factory worker was not getting what he wanted from an 80-hour workweek.

Some of this reluctance to recognize the New Capitalism may derive from the unhappy obverse of the situation in the 1920s. The responsible leaders, believing that the new age had begun, were thoroughly unprepared for the depres-

sion. Prosperity had been a temporary image, and stability a false one. The depression's first effect was to strengthen old beliefs, and most businessmen agreed with Bernard Baruch when he said: "Delay in balancing the budget is trifling with disaster." But one candid banker said in 1932, when asked if he had a solution: "I have not and I do not believe anybody else has."

Painfully won concepts

Business was not alone in its bafflement. Reacting from his own radical disillusions, Lincoln Steffens told a labor economist at a meeting of left-wing liberals: "I've been waiting for this moment for years–to see all you fellows together, up against a blank wall and not knowing what to do about it!"

Most conservatives and liberals emerged from the debacle with painfully won concepts. John Maynard Keynes contributed both to the progress and the pain by insisting on solutions that violated the orthodoxies of the left and right. The liberals had to give up a sentimental anticapitalism, while the conservatives were moving toward a *modus vivendi* with big government and unbalanced budgets.

The liberal-conservative dialectic continues, with each side providing excuses for attacks in their incautious claims. Thus a gaggle of Yale professors could pillory businessmen by quoting them accurately in a book claiming to show the business creed. But the business of businessmen is business, not talk; a professional philosopher must get behind the words to discover what they really mean. Like everybody else, moreover, businessmen talk differently from the way they act. A labor creed, gathered by someone with bias counter to that of the Yale professors, would sound just as risible and inappropriate.

A union bargaining situation is a good example of the typical weaving and bobbing among realities and imperfectly corresponding images. The union talks about exploitation and coolly decides how much profits the company will be stubborn about. The company meets a wage demand by defining it as an attack on free enterprise. No less important are accomodations that receive no mention; the presidency of a great corporation went a few years ago to a man known for his ability to get along with labor.

Mixed character

While the NAM and the National Chamber of Commerce persist in old beliefs, such business groups as the Committee for Economic Development frankly accept the mixed character of the

economy. The difference in images is a lag situation; the NAM and the Chamber express an average point of view that includes that of many smaller businessmen, whose cost and price situation is closer to the classical. Enlightened policies can be luxuries for the rich; a liberal tariff that would require adjustments by a great firm might kill a small one.

Yet the leading corporations operate with such lag factors as relatively inflexible concepts of standard costs and normal profits; they must make reservations in considering their cost accounting in relation to the institutional power situation. Large firms must often neglect profit considerations for the sake of public relations, reactions on governmental policy and long-range goals. Automobile manufacturers did not, for example, raise prices to the sellers' market maximum after World War II.

All human truths of any magnitude are approximations contingent on time and space. If the fighting Winston Churchill was supremely right in 1939, he would have been uselessly right at an earlier time when his country was not ready to follow him. Since the history of humans and their ideas is a history of varying relevancy, it is much easier to find the inaccuracies in any image than to form a consistent one; the destructive critic has the support of all logic as he attacks life itself. Others, proceeding from the assumption of their own frailties, can concede that we must make do with the best contemporary truths while we struggle to find better ones.

It is the function of human decision to reduce the amount of inaccuracy in approximations before they become dangerous. The NAM definition of competition is an example of the excessive claims once dominant in the business class, while the attitude of the American liberals in the 1920s denied too much. The Great Depression emphasized the failure of either approximation and the absence of a decision; great wars are examples of similar failures.

Irreducible elements

We shall better deal with such economic and military realities, moreover, if we accept error and danger as the irreducible elements of any situation. History has no guarantees; the wisest statesmanship would not have saved a small nation in central Asia from obliteration by Genghis Khan. Nor does agreement imply an absence of conflict. One of the unfortunate currents of American philosophy, given direction by John Dewey, assumed that conflict could be eliminated. The claim rested on the awe-inspiring fallacy that

science could make clear the great social truths, a fallacy that becomes overwhelming when we consider that the scientific explanation for the physical world ends in the mysteries of energy and matter.

The point is thus not to deny conflict but to conduct it under rules that reduce the damage; social statesmanship is measured by the ability to raise conflict to the nonphysical level. We can regret that humans begin a conflict in physical terms too often, yet the strikes and the occasionally subversive words of the 1930s, for example, were part of a vigorous union movement that is today a relatively responsible and necessary social institution.

Brutal potentiality

We need more conflicts, but they must be expressed in terms of reasonably accurate images. The issue of civil defense, or rather the absence of such an issue, has a brutal potentiality precisely because it is not being faced, fought out and defined. The House Military Operations Subcommittee announced just before the summer adjournment: "The supreme irony of civil defense in the United States is that the American people and many of their elected and appointed policy officials refuse to accept the distasteful facts of life because they are distasteful." The subcommittee said that a thermonuclear attack on the 150 largest American cities could kill 90 per cent of the population, while adequate shelters would cut the deaths to three per cent. The Senate, however, refused a request for a 13-million-dollar prototype shelter program.

We neglect other important issues. The problem of supporting the individual against group pressures is the most important of our time; it is also the most difficult because of the one's weakness against the many and the fact that the individual's easiest defense is to band with like-minded others—with the danger of his disappearance in yet another group. We have failed to develop an individual image strong enough to counter the virile composites of embattled unions or free-enterprising business.

Significant issues like inflation are shunted away because the major force of group demands is directed elsewhere. Congress prefers appropriations to taxes, while wage bargaining is too frequently resolved by a solution that means higher prices to the consumer. Other major questions in foreign affairs and agricultural policy are decided by indecision.

The refusal to accept conflict thus becomes not an expression of real cooperation, but an avoidance of the uncomfortable. Indus-

try prefers standardized tastes so that it can sell more standardized products, and its influence encourages the opinion-seeding of advertising and public relations. Television, radio, magazines and newspapers assist in the broadcast of peace-and-pap images.

It is fortunate that the country is not dependent on the professional image-makers; better representations are being made by observers who have nothing to sell. As a magazine of economic affairs, CHALLENGE can take a certain pleasure in noting that economists are the leaders in the development of new ideas. One might regret the virtual nonparticipation of American philosophers, historians, political scientists and sociologists. Physical scientists have reacted sharply to the implications of nuclear destruction, but they have not been able to achieve useful social generalizations.

Models and studies

Economists like Galbraith, Berle and Boulding are proceeding well beyond the models of classical economics and institutional studies. The institutions seem to be working about as well as the humans permit them, and subsequent improvements might well be concentrated on the human factor. The abstractions of the economic and the institutional man give way to the man himself. If our society forgets the individual, the economists are rediscovering him.

We are spending too much on private luxuries and too little on such public needs as schools and roads. If we are to improve the quality of those private and social decisions, we must establish higher personal standards. A school itself is as physical as an automobile, but that physical plant could produce an immateriality that is lacking in American life. The cultivation of the human being, not primarily for the sake of industrial or social efficiency but for an appreciation of the first values of life, promises a better control of the necessary physical factors.

The last American effort to find its self-portrait turns away from the material expressions that have been so characteristic of American life. It rejects the hope of finding more facile images and a superficial community of purpose. We might be able to discover a deeper identity well behind those images in essences that are no less real because they are impalpable. Since we are fortunate enough to have a minimal material basis for decent living, we can turn the emphasis to those other things, and in that area, as any prophet or rebel would agree, there is nothing to divide man from man. ■

The consumer remains constitutional monarch of the market place

POWER by PURCHASE

by Arthur W. Smithies

■ THE STANDARDS of consumption attained in the United States, and their rate of increase, are objects of complacency and concern at home, and of envy and despair abroad. Observers of the domestic scene are bemused by the increases of the past and the still more spectacular prospects for the future; and are already beginning to contemplate vacations on the moon. But in their more reflective moments, they have doubts concerning the purposefulness of it all and fears that the craters of the moon may provide unattractive resorts. But if it turns out to be dull, there is always Mars. Envious foreigners hurl stones at the Vice President in their despair of attaining the levels of living they profess to despise.

How has it all come about? Adam Smith had part of the explanation when he said, "The desire for food is limited in every man by the narrow capacity of the human stomach, but the desire for the conveniences and ornaments of building, dress, equipage and household furniture seems to have no limit or certain boundary." But he went on to say, "Those, therefore, who have the command of more food exert themselves to gratify those fancies of the rich, and to obtain it more certainly, they vie with one another in the cheapness and perfection of their work."

Adam Smith foresaw the rich man's paradise of most of the 19th century; neither he nor anyone else foretold the provision of equipage for the poor–and processed food as well–in a later peri-

od. As Joseph Schumpeter put it, "The capitalist achievement does not typically consist of providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort." The central phenomenon of modern capitalism, in which America has led the way, is mass production for mass consumption. And whether or not limitless desires are innate in the human psyche, modern technology, methods of distribution and persuasion and the availability of credit have quickened the desire to consume.

In fact, the malleability of consumer desires in the hands of producers, distributors and advertisers has led many critics to question the purposefulness of the largest segment of economic activity. To what extent can we believe in the doctrine of consumer sovereignty? Television can hardly be said to have been produced in response to consumer demand. At most, the consumer is a very limited constitutional monarch. He can exercise a veto and choose among competing products, but he does not ordain the course of economic events. If economic development depended solely on the satisfaction of the untutored desire of the consumer, we would have long since arrived at the stationary state of satiety envisaged by economists such as John Stuart Mill.

In view of the malleability of tastes, can we say that we are better off, in some meaningful sense, than our grandfathers? We can, of course, rejoice in the size of the gross national product, but happiness presumably means something more than the worship of a statistic. It is simply not possible to compare the state of mind of a generation accustomed to automobiles with one that relied on horses, buggies and bicycles.

Moreover, a level of living that may have seemed exciting when it was in prospect may turn into Dead Sea fruit once it is attained. Restless striving for improvement rather than the attainment of given states of satisfaction seems to be the leading characteristic of economic life.

Nevertheless, there is evidence that satiety is being approached and that the utility of additional consumption is diminishing. The American factory worker is prepared to work half as long as he did at the beginning of the century. He has bought leisure with part of his increased productivity instead of doubling his living standards. However, it is significant that hours of work have not diminished appreciably since World War II, when the persuad-

Arthur W. Smithies is Professor of Economics at Harvard University.

ers seem to have held their own.

The emphasis on private consumption has led many observers of the social scene to ask whether mass consumption of mass production is not being overdone and whether our society should not give greater recognition to other values. It is pointed out that the techniques of persuasion do not apply to cultivation of the arts and to education. While our automobiles get bigger and shinier, housing in many urban areas is falling below acceptable standards. These arguments have force, particularly when the neglected items involve collective consumption. The citizen does not pay taxes to support public education with the same eagerness that he makes the down payment on a car.

Requirements of security

Even more urgent are the requirements of national security. In the interests of consumption we have been neglecting national defense and the obligation we have undertaken to assist the underdeveloped countries of the world to relieve their poverty. The requirements of national security and social welfare have been vividly portrayed by the recent Rockefeller Report on the United States economy, which estimates that our traditional three-per-cent growth rate may not be sufficient.

If a miraculous disarmament is achieved, the national task should be relatively easy. Consumption could continue on its upward trend and the annual increase in national productivity could provide enough in addition to meet government needs at home and abroad. In the more likely event that the cold war continues, the alternatives may be either to accelerate the growth rate or to modify consumption standards. The Rockefeller Report recommends acceleration and does not consider the latter. But consumption changes deserve consideration, in terms both of feasibility and desirability.

If we admit that consciousness of rising living standards is an important element in our way of life, is it inconsistent to induce consumers to use their durables longer and to discourage producers from the production of obsolescence in the guise of styling improvements? Despite our affluence, we may still have to live in an economy of scarcity in which first things must come first and second things are discriminated against. A system of excise taxation and credit control could achieve these results. It would be denounced as discriminatory, but discrimination would also be involved in effective measures designed to step up the rate of economic growth.

Not much is heard today of the

specter of underconsumption that haunted many economists from Malthus to Keynes. The theory was that saving in a fully employed economy tended to be chronically excessive in relation to investment requirements–with the consequence that the economy did not grow fast enough to maintain full employment. Therefore, anything that could be done to increase government investment, government consumption and private consumption was all to the good. Saving, according to this theory, then, became a major economic vice, and any redistributive measures that could be undertaken to reduce savings were all to the good. While these ideas seem unreal in a world of war alarms and capital scarcity, they may again become relevant within a generation.

Remote possibilities

When atomic energy is in general use, capital requirements per unit of output may well turn out to be much lower than they are today. In that event saving may again tend to become excessive, unless something happens to the desire to consume and the desire to work. Conceivably, a shorter working week and trips to the moon may solve the problem automatically; conceivably, we may decide we are not interested in outer space and that we have achieved abundance. Remote though such possibilities are, they should not be overlooked. Human ability to forecast the economic future has not been impressive.

The modern emphasis on the consumption of durables has added to the short-run problem of economic management. In contrast to nondurables, durables can be bought on credit, since the goods themselves can serve as collateral for the loan. While it is right and proper to pledge property as security for a loan, the common law does not permit an individual to borrow for his education or his food by pledging himself or his future earnings.

The advent of durables has, therefore, meant that an individual is not bound by his income or his assets in determining his current consumption. Consequently, consumption has become a volatile element in the economy. Waves of enthusiasm for new styles may increase purchases and hence help to generate boom conditions, as they did in 1955. At other times the consumer may be overtaken with rationality and decide that the time has come to call a halt and pay off some debt.

"Acceleration principle"

Another characteristic of durables is that they are subject to the so-called "acceleration principle." This principle asserts that,

even if purchases of durables are governed by income, not only the current level but the rate of its increase are influential factors. In a recession, where income fails to increase, demand for durables may shrink to replacement demand. But with a subsequent expansion of income, new demand enters the picture, and the result may be expansion in the total demand far out of proportion to the increase of income. And when the increase of income ultimately levels off, purchases of durables may decline absolutely.

These factors affecting consumer durables naturally raise the question of whether they should not be objects of special attention in devising stabilization policies. Parallel behavior of producers' durable equipment has traditionally entitled that item of expenditure to special recognition. The market for consumer credit has grown up in a haphazard and undesigned way. It is not subject to the degree of control that is recognized to be needed in respect to the stock exchange or commercial banks. Such controls have been used in wartime, but so far there have been no serious efforts to devise the types of control that can contribute to stability in more normal times.

There are some brighter sides to the picture. The high and rising consumption standards achieved under capitalism have probably contributed more to the achievement of social democracy than any other factor. The uniformity of consumption standards in America, and in the countries that have emulated it, has done more to produce a meaningful state of economic equality than all the efforts of social reformers to redistribute money incomes. The most rapacious monopolist must content himself with a Cadillac; his "exploited" workman drives a shiny Chevrolet and there is very little difference between them.

The critics lament

The degree of equality achieved in America is shown by the fact that the struggle for redistribution of income is less intense here than in other Western countries. In their dismay at this fact, left-wing critics proclaim that the social consciousness of the proletariat is being dulled by bourgeois standards of material comfort. But is desire for material improvement necessarily more unworthy than envy of another's possessions?

One must not also forget that rising living standards have been achieved by the expenditure of diminishing amounts of human effort. Increased productivity in the satisfaction of human wants would not have occurred had it not been evoked by increasing

human demands. Paradoxically, had our wants been less elaborate, more effort probably would have been required to meet them.

Increased productivity has meant that a large part of the national product of the United States is available for and devoted, on a democratic basis, to education, health improvement and care of the aged and the needy. Although more attention needs to be given to these matters in the future, the record so far is still impressive.

The American public high school and the state university are symbols and products of modern capitalism, in fact, an aspect of mass consumption. Those who dislike them yearn for an elitist society symbolized by perfection in the construction of Greek epigrams. Others may feel that the introduction of raw recruits from the city and the farms to the foundations of our culture holds even greater promise for the future.

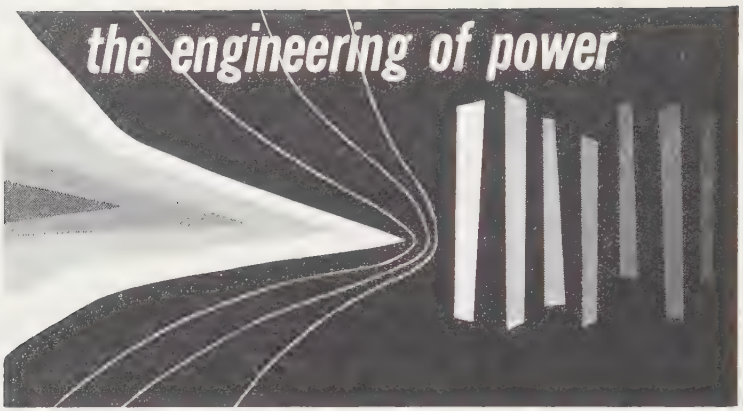
In contrast to the United States, those societies that do not emphasize high consumption present a forbidding spectacle. An economic surplus in the hands of an elite is unlikely to be devoted to the establishment of Utopia. In the past it has led to the court of Louis XV, and in the present to the power of the Kremlin. The outlook for the world would be better if the human race would give its undivided attention to mass production for mass consumption. The most menacing prospect for the United States is not that it may continue on its course of high consumption, but that it may have to leave that path in order to meet the Communist challenge.

I am not suggesting an attitude of complacency. The very lack of complacency and the capacity for self-criticism have wrought profound and beneficial changes in the American economy during the first half of the 20th century. There is reason to hope that these same forces will serve us equally well in the future. ■

Answers to Challenge Quiz

(See page 95)

(1) False *(see page 58)*
(2) True *(see page 80)*
(3) True *(see page 64)*
(4) False *(see page 45)*
(5) False *(see page 31)*
(6) False *(see page 20)*
(7) True *(see page 37)*
(8) False *(see page 26)*
(9) True *(see page 8)*
(10) False *(see page 42)*
(11) True *(see page 70)*
(12) True *(see page 85)*



The institutionalization of economic life has altered the workings of the "free" market economy

by Sarah V. Thorelli

■ TODAY, while two is still company, three is no longer a crowd but an institution. Modern man's sole means of realization seems to be through some group or groups.

Classical economic doctrine does not always recognize this, so that there is today a wide gulf between it and the realities of modern society. Of the several assumptions of classicism, three may be singled out as crucial. First, classical economists assumed a market composed of a great multitude of buyers and sellers, all exercising an equal and insignificant influence on total transactions and prices. Second, they assumed that every participant operated with equal and perfect knowledge of the market, thus ruling out uncertainty and leaving virtually no room for independent decision-making. Third they assumed that competition would be "perfect," implying that any move by one actor would instantly be copied by every other actor. Paradoxically, this notion made change virtually meaningless from the viewpoint of the individual entrepreneur.

The rapidly growing institutionalization of economic life–that is, the emergence of organizations that deliberately seek to accumulate power so as to affect market behavior–in the last 100 years has led economists to look beyond the rigid confines of the old models. Institutions operate in a way that is substantially different from the behavior of individuals acting alone. They have the capacity to take independent risks, make decisions in the face of uncertainty, and make change an orderly,

practical, manipulative process.

The original purpose of most economic institutions seems clear enough: to secure for their members such material advantages as profits and improved employment conditions. But once a minimum of such benefits has been gained, they frequently display a tendency to broaden their scope. They may, for example, engage in educational, recreational and welfare-type activities and aspire to enrich–or, if we look upon their efforts in a less kindly light, to dominate–the social life of their members. Certainly, self-perpetuation has come dangerously close to being the central theme of much institutional activity. Unfortunately, only certain economic institutions are subject to bankruptcy laws.

It is clearly impossible in a short article to describe the increasingly diversified and complex kinds of institutions that characterize our society. While we shall place special emphasis on the corporation as the most important and characteristic institution of modern economic life, we cannot forego mentioning a few other institutional categories.

An evergreen variety of institutional flora consists of interest groups–trade associations, chambers of commerce, professional guilds, farm groups and labor unions. There are an estimated 2,000 national trade associations in the U.S. The most important, though not by any means the only, activity of such organizations is frequently legislative lobbying. As an example of their efficiency, we need merely point to the druggists associations which have been credited with almost singlehandedly bringing about adoption of the original Federal Enabling Act for state resale price maintenance laws (and gaining acceptance for the term "fair trade" in the process).

Labor unions, which today enjoy an estimated membership of about 18 millions (most of whom belong to some 200 national organizations), increasingly find trade and employer associations on the other side of the bargaining table, rather than single enterprises. The unions are now being confronted by a choice: Should they retain their traditional, independent character or should they press for a voice in everyday managerial decision-making and assume the responsibilities that go with it? This choice between exclusive representation on the one hand and direct participation in the general management of public and private business on the other confronts many interest groups in an

Sarah V. Thorelli, a political scientist, has made studies in the institutions of modern democracy.

advanced stage of development.

Another institution that is more closely involved in commercial markets than either the trade association or labor union is the cartel–an organization of business firms explicitly formed for the purpose of restricting competition among its members. While most cartel arrangements worthy of the name are illegal under our federal antitrust laws, the predominance of cartel suits among Sherman Act cases suggests that this type of "conspiracy" is difficult to eradicate completely, even where interstate commerce is involved. And, although there is formal antitrust legislation in most states, it is no secret that collective price fixing, output restrictions and similar arrangements enjoy a relatively unhampered sway at the local level. This certainly does not mean that the spirit of free enterprise is dead–but it does imply that organized restraints on competition are more common than many Americans like to think.

No consumer lobby

Considering the power of organized *producer* pressure groups, it seems amazing that *consumer* interests have as yet been organized on but a modest scale. No broadly recognized consumer lobby exists in Washington. True, at the market level there are numerous consumer cooperatives in rural areas, and in such specialized fields as credit, medical care and housing; but, generally speaking, these co-ops exert relatively little influence.

The traditional explanation for this weakness is that the community of interests among consumers is too vague, diversified and diluted to provide a suitable basis for organization, but the reason goes deeper than that. On the whole, the vigor of competition in the field of distribution in this country has left little room for cooperatives and has, in any case, largely precluded the need for them. Only if private enterprise should get too involved in institutional restraints on trade are strong consumer groups likely to emerge.

An interesting hybrid between producer and consumer organizations, and between mass membership and private ownership, are the pension trusts and welfare funds, which today amount to some 35 billion dollars and which are growing at the rate of five billion dollars a year. Clearly, funds of such a magnitude can exert a far-reaching influence on the economy as well as on individual companies. The Sears Roebuck pension trust, for example, has bought heavily into Sears stock, and presumably now has a controlling interest in the com-

pany. Thus, Sears is "socializing itself," emerging with a management that is responsible only to itself. But, as A. A. Berle, Jr. has pointedly asked: What happens to the "legitimacy" of management "when the only mandate it can refer to is its own?"

Community of interests

While all these institutions are important, it is the corporation which is the most characteristic institution of modern economic life. For centuries one of our most flexible and adaptable institutions, the corporation is again changing its character. More and more, it is emerging as a community of interests which includes consumers, employees, stockholders and creditors, suppliers and subcontractors, distributors and dealers, competitors, the plant community, the government, and increasingly, the public at large. Management's role in this system is twofold: first, to achieve a working balance among all the other participating interests of the firm, and second, to assure the survival and growth of the corporation as a venture.

Changes in the corporation's structure and functions have resulted in changes in corporate objectives. The maximization of short-term and even long-term profits can no longer be the exclusive objective of all corporate activity. Profitability itself assumes a new meaning: the corporation is not in business to make profits; it makes profits to stay in business. Increasingly, its objectives will be defined in terms of "serving the public interests." Since the consumer is likely to remain the principal source of corporate income, we may expect that this will be interpreted as calling for a greater customer orientation in corporate activity.

The institutionalization of economic life has also greatly changed economic group behavior:

•*From open markets to closed shops.* An increasing share of all economic transactions has been withdrawn from the free play of market forces. At the same time, freedom of entry has become restricted in many markets.

•*From calculus to bargaining.* The rational and impersonal calculation of "pleasures and pains" that was supposed to characterize economic man certainly does not apply to institutions. Institutions bargain, which means that when dealing with each other they must constantly observe a host of conventions, many of which are not "rational" in the classical sense. Bargaining considerations, for example, may lead a company to reciprocal buying or deliberate purchase from, or sale to, several parties in order to achieve "arms-length" relations with each one.

•*From competition to interac-*

tion. The growing interdependence of various economic parts is creating complex connections between institutions. While rivalry based on diversification and interchangeability of products and materials is greatly increasing, we also find a kind of indirect competition that may be characterized as coexistence. Missile production is one instance where cooperation became a virtual necessity in the field of complex technological systems.

Economic functions

How do institutions accommodate themselves to change in our dynamic society? Institutions have a tendency to take on new functions more readily than they discard old ones. The new functions of large corporations–employee selling, collective insurance, philanthropy, etc.–often take the form of institutional self-propagation by decentralization.

There are also constant changes in the division of economic functions *between* different institutions. For example, should functions be integrated in one institution or should separate institutions be created to perform separate functions? The make-lease-or-buy problem with which institutions are constantly faced highlights the issue. In service industries the trend seems to be in the direction of new and more specialized institutions. In manufacturing, ownership or control of distribution will probably become an increasingly important factor in gaining direct access to markets.

What have been the effects of this growing institutionalization on economic growth and stability, the distribution of resources and incomes, and the distribution of power in society?

While it is true, as the late Prof. Joseph Schumpeter noted, that the large corporation has become the primary (though by no means exclusive) source of basic innovations, it also seems clear that the institutional process has, in some cases, lengthened the distance from laboratory to market. It has also introduced a new rigidity to a number of markets, including that of labor. Further, institutionalization of economic growth has apparently not been achieved without a certain amount of built-in inflation.

As for the role of institutions in reallocating resources and output, the evidence suggests that their influence might be considerable at least in the short run. Thus, while wages tend to parallel productivity in the long run, regardless of the absence or presence of strong labor organizations, the short-run influence of unions on wages is probably substantial.

The impact of institutionalization on the power structure is

difficult to define. Clearly, there is a concentration of power whenever outsiders are kept from joining professional or labor organizations or, when organizations combine at the expense of third parties, as when labor and management strike bargains at the direct expense of consumers. There also is centralization of power *within* organizations–as witness the outcry for safeguards of democracy in labor unions.

Here to stay

Whatever their origin, the great institutions of modern life are here to stay. Yet, as we have seen, their effects may not always be to the good. How, then, can we prevent abuse? Four avenues of approach may be suggested:

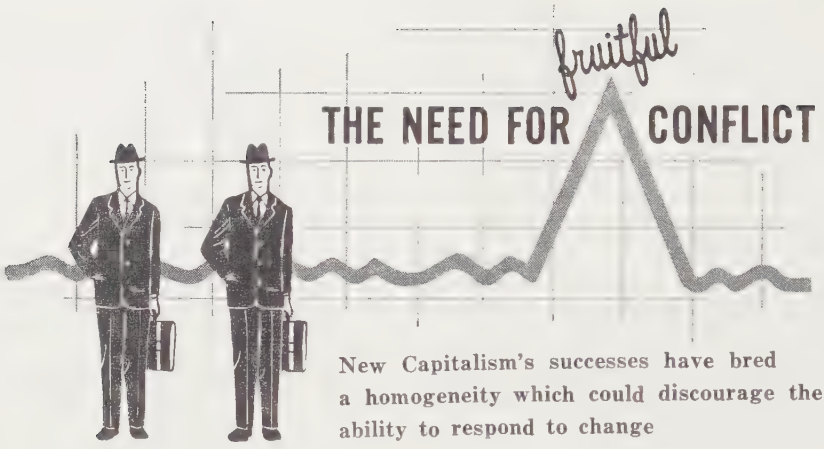
•*Self-restraint.* While the exercise of some self-restraint by individuals and institutions is essential for the maintenance of a democratic system, human nature cannot always be trusted. Moreover, too much public reliance on self-restraint may encourage timidity where courage is called for–as when, on a few occasions in the past, the steel industry abstained from price increases in spite of an unhealthy cost-profit squeeze.

•*Countervailance.* The assumption behind countervailance–that any group's tendency to abuse its powers will be checked by another, equally powerful group–is beautiful but unrealistic. Countervailance is sporadic and opposing groups may end up by striking a bargain at the public's expense.

•*Competition.* We may find that competition is still the single most effective check on the agglomerations of power. But competition will increasingly shift to rivalry between *alternate* products and processes rather than *identical* ones, rendering increasingly obsolete traditional boundaries between *alternate* products and processes rather than *identical* ones, rendering increasingly obsolete traditional boundaries between industries and institutions.

•*Government intervention.* We shall not be able to do without a measure of government intervention. Ultimately, government is the countervailing power as well as the master balance wheel. Next problem: how to control government, now by far the most important institution in economic life.

To prevent the institutions from distorting democratic processes, a combination of forces such as those just discussed is called for. But in order to strike a balance consonant with the concept of general welfare of the New Capitalism, we shall need a new conception of economic organization more closely in touch with present realities than classicism. ■



New Capitalism's successes have bred a homogeneity which could discourage the ability to respond to change

by Paul J. Strayer

■ OUR COUNTRY had the good fortune of being developed at a time when feudalism was dying. An enterprising population could organize itself in the socially efficient terms of English law and develop a malleable continent with the new tool of the Industrial Revolution. The result was a great measure of economic opportunity for all; America seemed a direct response to the call for equality formulated by 18th-century Europe's philosophy and longing.

A highly mobile population was always willing to follow changing economic opportunities. Aided and proselytized by the most democratic educational system in the world, the American had the faith that nothing could keep intelligence and ambition from achieving success. Everyone knew a real, honest-to-goodness Horatio Alger.

All segments of the population have shared in a living-standard rise unique in the world. This state of well-being, moreover, has become an important factor in eliminating many of the more conspicuous symptoms of class differences that characterize societies elsewhere; the rise in real output has reduced many of our political antagonisms. With the help of the mass-production system, the vast majority can enjoy most of those goods which society has decreed necessary for the good life.

Everybody wants substantially the same things, and while the wealthier can afford better automobiles, television sets and record players, none of the standard luxuries are out of the financial reach of most Americans. Indeed,

it is a happy characteristic of our society that the economy places its greatest dependence on those goods that are standard products developed for a mass market. As a result, there is no other country in the world in which it is more difficult to guess one's income from his consumption patterns.

How did this come about? While American capitalism has always been remarkably mobile, this increasing homogeneity in our buying habits is something relatively new. It is one of the outstanding features of our New Capitalism.

Our lower-income groups have experienced a striking rise in both their absolute and relative incomes. Since the depression, the improvement for the worker has not only been in terms of higher hourly wages, but also in a yearly income that has suffered much less from periodic layoffs. He has also derived financial advantages from minimum wage legislation, welfare measures and the growth of labor unions. At the same time, the farmer has been aided by federal support programs that have reduced the violent effect of demand fluctuations.

If the position of the lower-income groups has been leveled up, it is not at all clear that the wealth of the upper-income classes has been leveled down. Prof. Simon Kuznets, one of our leading experts on national income statistics, has suggested that the share of total income received by the top five per cent of the population has been declining. But his estimates are based on income statistics which exclude both capital gains and the undistributed profits of corporations.

Another expert has pointed out that the share received by that five-per-cent group between 1939 and 1946 would be increased by one-third if realized capital gains were included as income. The estimate of the income share going to the top one per cent of income recipients would be nearly doubled if we counted capital gains. The wealth of the wealthy is even further increased by unrealized capital gains–undistributed profits which corporations reinvest and which increase the value of their equities.

There is, thus, an important inequality in the sharing of tax loopholes. Those whose incomes derive exclusively from wages avoid the full impact of the tax laws only in the area of pensions and fringe benefits. The salaried executive is a little better off; he can take advantage of deferred compensation plans, stock option programs and the expense account. But the opportunities for legal tax avoidance are greatest for those

Paul J. Strayer, author of income studies, is Professor of Economics at Princeton University.

with investment income. They can maneuver by means of tax exemptions in state and local bonds, the 25-per-cent maximum tax rate for long-term capital gains, depletion allowances in investment fields like the oil industry, and special privileges for family partnerships and corporations.

Recent Harvard studies suggest that when capital gains are included, no executive was taxed as much as 50 per cent of his true income in 1946. The studies indicate that all progression stopped at the 50,000-dollar level. As more individuals learn about the possibilities of tax avoidance, moreover, the problems of enforcement are going to increase.

Contradictory developments

We are thus faced with contradictory developments, intensified homogeneity in habits and half-hidden inequalities in the tax structure. Contradictions are proof that given situations have more meanings imbedded in them than are commonly considered. What does this anomaly mean?

We might well trace the implications in terms of the element of conformity. Indeed, homogeneity suggests an outer conformity more than it does an inner equality. It is possible that our society is attempting to resolve demands for equality to which it is not willing to accede completely by settling for less drastic externals.

The great growth of the corporation is having significant effects on our society, a normal eventuality in the case of any important social organism. The corporation is undemocratic by definition; it works most efficiently in a hierarchical manner and inevitably demands servants who will accept its intricate mores. The requirement is for a conformity on various levels instead of for a generalized equality; the junior executive should act like other juniors and maintain a respectful tone with the senior executive.

Many attitudes illustrate the difference between conformity and equality. It is considered bad form in certain residential developments for a man to own a Cadillac when the norm is a more modest automobile; conforming takes a downward direction. Yet the person whose success carries him to a wealthier neighborhood would be wise to trade in his Dodge or Buick for a Cadillac–or a Jaguar.

A less-than-honest tendency toward conformity extends its effects to the minds of men. Too many persons think alike and fear the rise of real leaders who are forthright in dealing with political and social problems. The timid and other-directed are encouraged in their attitude by the interlocking operations of advertising, public relations, news-gathering and

communications, and power groups like corporations and labor unions.

Fears and tensions hide behind the face of conformity; the hydrogen bomb casts an anticipatory cloud over our prosperity and the lag effects of the Great Depression are still present. Yet fears are destructive to good thought and action. We need boldness and initiative to master the problems thrown up by technological progress. If we are to preserve those aspects of our life that we value, we must be able to respond to new developments with great speed and a proper relevancy.

We are too often victims of old shibboleths that fail to fit the idiom of the day. The danger is that we shall accept a false security and verbal solutions to real problems. Conformity puts a gloss over fissures that should be examined. Yet American history records a series of conflicts that were honestly faced and which produced healthy solutions in spite of the pains.

Too many college graduates are prepared to work for and conform to the large corporation. The "organization man" seems to be in control of most of the large power aggregates in the United States. Even public opinion polls foster a low common denominator of opinion by their very techniques of opinion gathering; the questions selected and the way they are put have great force in influencing minds.

Government is acquiring more and more power to affect the distribution of income and the nation's rate of growth. Yet who is concerned about its methods? Industry seems to find that the best policy is the negative one of outward indifference. Furthermore, it is content that the situation favors a perpetuation of sellers' markets. Labor is equally negligent because productivity increases give it a strong bargaining point. Political leaders have found that they could most appropriately respond to negative attitudes with inaction and soothing words.

A bold citizenry

There is little time left if we are to preserve the advantages of a free economy and the strengths resident in a bold citizenry. Schools are a critical issue, but no really effective action has been taken to correct their obvious shortcomings. Pensions become increasingly inadequate as prices rise; health measures are unable to keep up with scientific advances and increased expenses.

We should realize that the millenium sought by all peoples at all times is within our grasp: we can eliminate poverty and we can do it without losing freedom. A simple homogeneity is no answer,

nor is homogeneity generalized in our society yet. The poor are variously with us, the minority groups, recent immigrants, the ill and aged, and the members of broken families. They represent a living demand for greater efforts in the true spirit of equality, an equality that cannot be expressed in material terms but which asserts that the problems of these social cripples are as important as those of anyone else.

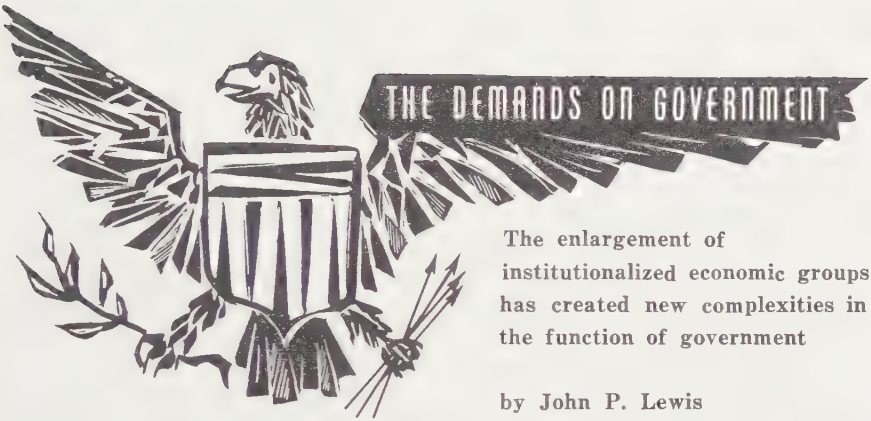
Often the tendencies to conformity within groups are reflected in a conformity between the groups themselves. Labor unions have taken up some of the techniques and expressions of corporations, while the corporations have accepted social and community responsibilities that are often most commendable in themselves. These changes are good to the extent that they express a true community of purpose which unites all Americans. But they can also disguise bargains between powerful groups at the expense of the unorganized. The consumers, unorganized workers, teachers and the aged are ignored by this friendly but exclusive conformity.

We need better leadership and, if our history can relate to the present, we need a greater measure of conflict. Corporations emerged with little perceptible damage from the old trust-busting operations. This is not to suggest new ones; the modalities of a past era are not relevant today. But it is an indication that conflict and strain can be useful in testing and strengthening our institutions.

I have permitted other papers in this symposium the pleasures of appreciating the initiatives and adventurings of the New Capitalism. Many of our accomplishments are generous and hopeful, as we have accepted great responsibilities in world leadership. We can best fulfill our mission by resisting the pressures of conformity. ■

Personality and Eating Habits

A STUDY by several noted doctors on the eating habits of more than 100 soldiers stationed at Fort Carson, Colo., showed that finicky diners were the active and impulsive kind. The robust souls who preferred vegetables like to work alone on theoretical problems, while the starch-eaters wanted only to work on practical problems that required teamwork and saladeaters were the outdoor types who love to mingle with their fellowman. When asked to give the dietary habits of the all-around man such as Leonardo Da Vinci, the physicians admitted their hypothesis had a few shortcomings–or the great Leonardo was the most indiscriminate eater in world history.



The enlargement of institutionalized economic groups has created new complexities in the function of government

by John P. Lewis

■ THERE HAS BEEN a strong strain of hostility toward government in American thought. In part, this attitude is rooted in an ancient, essentially political, tradition, which reaches far back into the recesses of British history. The antagonism was important in the American Revolution and was kept vigorous by the restlessness of the American frontier. After 1800, this preference for circumscribed, minimal government got theoretical reinforcement from classical economic theory and its public policy recommendation–the doctrine of laissez faire.

We often talk as though the doctrine of minimum government were the only traditional American ideology of business-government relationships. We recognize that government never really has functioned as the classical economists would have had it; that there has always been a good deal of regulating and promoting of particular industries and groups, of tinkering with tariffs, and of government enterprise. But we classify all of these deviations from laissez faire simply as expedient departures from principle.

What we overlook is that all such positive uses of government reflect a strain of American ideology at least as strong, and indigenous, as the element of mistrust. This is the tradition of popular sovereignty, which views democratic government as a unique instrument for human betterment. In this mood Americans have seen government as the only community organization to which everyone belongs and the only agency formally accountable to the whole community. This po-

sition suggests that responsible popular government may properly do whatever the majority, in its wisdom, directs. Indeed, government is the only agency within which substantial powers to influence the fortunes of large portions of the electorate may be safely concentrated. Private power concentrations are acceptable only as long as they are effectively disciplined by the impersonal market mechanism.

Dynamic tension

Obviously, neither of these traditional American attitudes toward government can prevail absolutely. The essence of our political thought is the dynamic tension between them and the processes and institutions by which they are forever being accommodated to each other. The formal apparatus of accommodation is that of constitutionalism, which should be thought of not as an attempt absolutely and forever to proscribe government from certain fields of action, but rather as an effort to minimize the indiscretions of majorities. In practice, the issue has been between the Americans' suspicions of their governors and their impulse to use government as an instrument of reform. The outcome depends chiefly on how rapidly the nongovernmental environment is churning up new problems.

In terms of our deepest political traditions, therefore, there is nothing the least bit more "un-American" about the SEC, the TVA or the Wagner Act than there is about General Motors or the single family farm. In view of the profound changes in the economy during the past half-century, it was natural for the balance to shift rather sharply in favor of a more positive attitude toward government.

The claim that the U. S. of 1900 approximated the conditions of the classical theorists' purely competitive economic model is, of course, nonsense. This was the heyday of baroque trusts, some of them grossly unscrupulous. We are told that a few financial barons could make or break the financial markets in one whimsical morning; that it was routine to buy and sell state legislatures. The distribution of wealth and income was remarkably unequal by modern standards. And the economy was recurrently wracked by slumps whose relative magnitudes would not be tolerated by a mid-20th-century electorate.

The interesting question is why more public economic reforms had not already been undertaken. Part of the answer was the low caliber of American public ad-

John P. Lewis is Professor of Business Economics and Public Policy at Indiana University.

ministration, particularly at the state and local levels.

The professional career was too small and carried insufficient prestige to attract high average competence. There were many reasons for this. Thanks to its natural geographic defenses and the British Navy, the nation required practically no standing military establishment. This kept the federal budget and the size of the federal bureaucracy much smaller than it could have been otherwise. Our strategic security, moreover, helped attract large injections of private European capital and, along with rich natural resources and venturesome enterprise, generated a remarkable record of economic expansion.

Inefficiencies and inequities

This growth rate, of course, was a central factor explaining the tolerant feeling of most people toward the system's inefficiencies and inequities. It was the best economic show in the world of its day, and Americans knew it. Economic growth, together with empty lands to the west and a fluid social structure, made the opportunities for improvement seem boundless while the injustices of the moment looked relatively transitory. Moreover, since it began in an unpeopled territory where labor was scarce, it was the kind of growth that always yielded higher labor and farm incomes than were available in Europe. The resulting influx of diverse immigrant groups, who, though exploited by American standards, had never had it so good in the old country, bolstered tolerance of the status quo.

The United States toward the end of the 19th century was still an exceptionally loose economy—open-ended, optimistic, strategically secure, blessed with an enormous margin for error. It was like an athlete so richly endowed that he can train very casually and still flatten the opposition. In such a situation the apparent need for new public economic policies went unrequited.

In this century the economy has, of course, become vastly more productive; the rates of long-term growth in output per worker probably have bettered the late-19th-century standard. With the after-tax distribution of this increasing material well-being also becoming more nearly equal, the United States is on the verge of becoming the first major society to eliminate mass poverty.

In an important sense, this has been the century of the masses. They are not only more numerous and affluent; they are also far more knowledgeable, for mass education has made phenomenal strides. And the American mass has become far, far more homo-

geneous. Its regional, ethnic and other differentiations are diminishing rapidly, thanks notably to the automobile, radio and television. The newly homogenized mass is a more alert, sophisticated electorate, is more mindful of its voting rights, is quicker to demand reforms, and is more resistant to crude demagoguery. But it is also a highly sensitive, responsive instrument for subtle persuaders to play upon from the nation's communication centers.

Acquired finesse

The organizational density of the economy has greatly increased. Trade associations and business federations have become more highly structured, regularized and professionalized. Because of higher capital requirements, entry into existing or even into new industries has grown more difficult. Farm organizations have become more firmly established. And labor, of course, has made enormous organizational strides.

As the producer groups have become more securely pyramided, they have acquired greater finesse in wielding political power. And a profession of managers has arisen to occupy most key decision-making roles. This last makes the behavior of large organizations more systematic, predictable, and potentially more socially responsible. But it makes economic decision-making more than ever the product of administrative discretion rather than of market combat; it labels as a maverick the ambitious young man who does not strongly identify with one of the large producer organizations; and it raises bizarre questions for the doctrines of both consumer and popular sovereignty. It is not too difficult to conjure up an image of the dedicated organization man who diligently creates consumer wants (which he proceeds to satisfy), molds public opinion (thereby keeping the domestic peace), and really does not report to anybody or anything but the American Management Association.

Two other economy-shaking changes of the past generation are universally recognized. First, as a result of its 1929-33 trauma, the United States became permanently depression-shy. The elections of 1932 and 1936 marked a revolution in political expectations: henceforth no federal administration could avoid being held responsible for serious unemployment, and the worst of sins in this respect became federal inaction. Lately the public has been showing signs of also becoming inflation-shy, but not to the same degree.

Second, there is our new role as leaders of the free world at a time when our traditional geo-

graphic defenses have been swallowed up by new technology. For the first time the United States has been sharing the normal European experience of continuing, nagging national insecurity and perennially high national security outlays. This has rendered obsolete many of the old debates about public economic policy. Whatever the economic desiderata, federal contracts and federal tax laws are bound to have an enormous impact on the economy for as far ahead as we can see. The relevant questions now concern only timing, distribution and choices among large magnitudes.

Ad hoc responses

Popular government has reacted to these changes in a variety of ways. Most of the new programs have been *ad hoc* responses to particular problems or pressures. This can be said of the Federal Reserve System, the various reforms of financial institutions and security markets in the Thirties, the extensions of specific industry regulation, the Social Security System, the housing programs, farm and other subsidies, river valley developments and many more.

In some respects, the restraint of public policy innovators has been surprising. Compared with other Western democracies, there has been little resort to public enterprise. And a remarkably restrained solution has been found to the enormous problem of avoiding depressions: the bulk of the job is done simply by controlling the level of aggregate demand via the traditional techniques of fiscal and monetary decision-making—which government has to do anyway. Thus, "Keynesian economics," from which this solution flows, deserves to be rated as one of the great conservative forces of the period. The theory, moreover, works within reasonable tolerances, reinforced as it is by high national security requirements and by the automatic stabilizers which accrued as by-products of reforms of the Thirties.

Policy triumph

The elimination of major depressions is likely to go down as the great domestic policy triumph of these middle decades of the century. Attempts to curb inflation have been less successful. Here, however, the unsolved problem is not one of aggregate demand management; it inheres, rather, in the price-making and wage-making practices of the large-group economy. Thus, it is a prominent part, but only a part, of the one broad policy field in which government responses to the new economy have been notably indecisive: the area of market policy, where the essential issue

is government's posture toward the new patterns of concentrated private economic power.

The nearest thing to a pattern of market policy is the vacillating record of antitrust legislation and adjudication. No one but a dreamer, however, thinks that such policies will enable us to approximate the conditions of the perfectly competitive economic model. At most, then, a tough antitrust policy is a tactic of harassment. Probably this is useful, but it is no more than a part of an adequate market policy.

"Countervailing power"

On another tack, government has promoted the marshaling of concentrated power, in the form of labor and farm organizations, on the opposite sides of markets in which industrial concentration already existed. But it is scarcely believable that this fostering of "countervailing power"–done for simple reasons of equity and political expediency–has resulted in a new, safely self-regulating, market mechanism. Balancing up the strength of direct bargainers in intermediate markets undoubtedly makes for greater average peace, dignity and contentment among the direct parties to production. But it offers little reassurance to such silent third parties as the consumer or the citizen.

The inflation issue is clearly one instance where the sum of enlightened producer-group self-interests does not add up to the public interest; and I am afraid that there will be others in coming decades. Some difficult adjustments to the organizational facts of the new economy still lie ahead of us. Hopefully, we can look to private managerial, labor and farm statesmanship for part of the answer. But beyond this, there is still some tangling with the giants to be done, and only government can do it.

If the balance of political power and of access to mass opinion does indeed lie with the organized producer groups, and if, at the same time, government is effectively to advance its concepts of the public interest, it must rely essentially upon tact and the intrinsic authority of dispassionate good judgment. Its resources in these respects will depend heavily upon the imagination and moral stature of its career servants. American public administration is far less corrupt and more competent than it was at the turn of the century, but it still has some growing to do for its assignment.

Thus, what to many readers has been an unpalatable essay arrives at this tasteless conclusion: nothing may be more instrumental in determining the future of the new American economy than the quality of its bureaucracy. ■

making economic policy work

The great influence of government requires that it develop new instruments for coordinating its major decisions

by Stephen W. Rousseas

■ WE HEAR a lot nowadays about the dangers of big government. We are told that the convergence of power in Washington during the past 25 years should be reversed; that things left to the market are more likely to result in decisions compatible with the general welfare. But whatever the virtues of a market system, it cannot operate properly in our mixed economy without a better coordination of economic policy on the national level.

The existence of the New Capitalism was officially recognized in the Employment Act of 1946, which states: ". . . it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to *coordinate and utilize all its plans, functions, and resources* for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities including self-employment, for those willing, and seeking to work, and to promote maximum employment, production and purchasing power."

The federal government's tools for meeting its obligations under the Employment Act are quantitative monetary controls, centered in the Federal Reserve System, and the fiscal controls of the

Treasury and the Congress. I have noted the shortcomings of monetary policy (see *"When Money Travels too Fast,"* Aug.-Sept., 1958) in terms of the growth of nonbank financial intermediaries beyond the direct control of the FRB. In the inflation of 1955-57, for example, the net effect of the Federal Reserve's tight money policy was to increase the income velocity of money, and the inflationary boom was free to run its course. Fiscal policy, in this same period, was largely ignored as a tool for cutting off the inflation.

Fiscal policy

In the latest recession not much could have been expected from monetary policy. It is a generally accepted principle that monetary policy can do little to reverse a downswing. All it can and must do is to make sure that the commercial banks are in a sufficiently liquid position to finance the recovery when it comes. Fiscal policy during the recession, moreover, continued to be looked upon with disfavor even though the economy was experiencing its most serious setback since the Great Depression. On the expenditure side, the federal budget was not used forthrightly. The idea of a balanced budget dies hard and serves the negative purpose of making deficits too small in times of recession, thereby intensifying the deflationary forces.

President Eisenhower, in consecutive addresses before the 1957 and 1958 Governors' Conferences, proposed that the federal government shift some of its powers to the states by having them take over financial and administrative responsibility, wherever possible, for social services provided for in the federal budget. But the individual states cannot be depended upon to schedule their expenditures contracyclically. Furthermore, the problem of synchronizing their activities becomes virtually impossible without federal government control.

To the extent that the financing of nondefense expenditures is given to the states, our ability to control the business cycle will be lessened. It is also doubtful that nationwide problems can be resolved adequately on a local level without direct federal aid. It could be argued that the government was abdicating its responsibilities under the Employment Act by trying to shift these matters to the states.

Problem compounded

The short-run ineffectiveness of monetary policy on the upswing as well as on the downswing raises serious doubts about our ability to

Stephen W. Rousseas is visiting lecturer on economic theory and policy at Yale University.

cope successfully with the problem of economic stability and growth. The problem is compounded, apart from the technical rigidities of fiscal policy and its susceptibility to political erosion, when, in keeping with a conservative political philosophy, emphasis is shifted from fiscal to monetary policy. The marked unwillingness to use the government budget contracyclically, while relying on a monetary policy made obsolete by profound institutional changes in the money market, does not speak well for an effective stabilization policy. Again, this indicates a governmental refusal to accept responsibilities that are unavoidable in the present order of things.

Relative power

In a world situation of power politics and power economics, where absolute contests of power in the form of total war are becoming more unthinkable, it is the changes in *relative* power that will decide the issue. Short of total war, comparative rates of economic growth are of critical importance in the East-West conflict, and the Soviet Union is realizing a rate of growth twice that of the United States.

The maintenance of an optimum rate of economic growth while keeping economic fluctuations within politically tolerable limits is, therefore, in the interest of our national survival, or, in the words of the Employment Act, in keeping with "other essential considerations of national policy." It is questionable, moreover, whether indirect quantitative controls can do the job. Our responsibilities under the New Capitalism are great; pious gestures are not enough to discharge them.

Depressions and inflations are not, in the economic or political sense, symmetrical phenomena; in moving from one to the other, the policy problem is not resolved simply by putting things mechanically in reverse. Even if depressions and inflations were symmetrical in the economic sense, the political context within which the policy decisions must be made distorts and compounds the problem with sometimes perverse results, and can result in halfway measures which serve only to make matters worse.

We need a *National Economic Council* with a high quality professional research staff. It would consist of the Treasury and a reorganized Federal Reserve Bank with extended powers over nonbank financial intermediaries and selective controls over the financial sector of the economy. Various other agencies would be included: the Public Housing Administration, Veterans Administration, Commodity Credit Corporation, Federal National Mort-

gage Association and Small Business Administration. There would also be direct lines of communication between the Council and the Securities & Exchange Commission, the National Labor Relations Board, the International Cooperation Administration and other similar governmental bodies.

Coordinate policies

The purpose of the NEC would be to coordinate the economic policies of the federal government as a whole. Monetary, fiscal and debt management policies would be synchronized along with the policies of agencies dealing in the extensions of credit to housing, agriculture and business. The various agencies and departments of the federal government would not be free to work at cross purposes or in total ignorance of one another's activities. In keeping with the social objectives of full employment and stable economic growth, the National Economic Council would intervene *selectively* in particular markets or sectors of the economy. It would have the power to encourage or restrain expansion in those sectors where it is deemed necessary.

Presently, if an excessive rate of growth in one sector threatens the stability of the whole, indirect controls are faced with a dilemma. Either they permit the disequilibrating expansion to continue, or general restraints are introduced which affect other sectors of the economy as well. If these other sectors were initially in a depressed condition, their situation is made worse. If, on the other hand, they were expanding at a reasonable rate, they should have been left alone. In either case, the results are not conducive to stability. And if general controls have only a minimal effect on the unduly expanding sectors because of their overriding profit expectations, the net result is worse than if nothing at all had been done.

Measures of output

This can be illustrated by an event which occurred in 1956. In the spring of that year there was some question whether the expansion of 1955 had a future. Broad-gauged measures of output showed early 1956 to be about level with the last quarter of 1955; seasonally adjusted figures for industrial production even showed a slight decline. Unemployment seemed to have leveled off at roughly 4.5 per cent of the civilian labor force—a level which was not too bad in itself, but which showed that there was still some slack in the system. There was general concern about the state of the economy, and predictions were being made of a serious downturn in the last quarter of 1956. The metal-products industry had meanwhile in-

creased its debts at leading New York City banks by 396 million dollars, compared with 22 millions in the same period of 1955. In response, the Federal Reserve, among other things, increased the discount rate.

But the metal-products situation was almost unique. Nationally, the loan expansion in this group of industries accounted for almost the whole growth of bank loans in recent months. The special factor in the metal-products situation was that a big rise in steel prices was visibly in the making. Steel users, trying to protect themselves by stocking up before prices rose, used the banks to finance their inventory speculations. The FRB responded by undertaking policies which not only failed to contain the inventory speculation of the metal-products industry, but had potentially depressing effects on other sectors of the economy already in trouble. Add to this the breakdown of communication between the Federal Reserve and other departments and agencies of the federal government, and the inherent weaknesses of our economic tools and policies become apparent.

A strengthened and reorganized FRB, acting unashamedly as a central bank, could have mastered the situation under mandate from the National Economic Council. It could have taken selective action if, for example, commercial bank assets were divided into various classes and if each class had different reserve requirements. The central bank could thus have raised the reserve requirements on loans to the metal-products industry without affecting other sectors of the economy.

Economy and security

The federal government has the responsibility under the Employment Act of using its powers selectively and in an integrated way. The NEC would be responsible for the coordination of the various subdepartments sharing its policy objectives. The proposal for an NEC requires, simply, that the responsibility for our economic objectives of growth, stability, full employment and security be clearly defined. Since economy and security cannot be disassociated, the chairman of the NEC should be of cabinet rank as well as a permanent member of the National Security Council. In a neomercantilist world of power politics, the struggle for *relative* power requires first the internal strengthening of the economy in terms of its external objectives.

The operations of the NEC would, of course, evoke political controversy from time to time. Selective action against one sector of the economy would inevi-

tably raise cries of injustice; the metal-products industry in our example would surely have protested. But controversy cannot be avoided; it acts effectively in a healthy society as a way of establishing the proportions of a problem. The point would be to grasp the problem before it got too big to be handled and to set it on the national stage of the NEC, where the general interest would take clear precedence over narrower demands.

There would be no fiction of economic neutrality or political independence about the National Economic Council. It would be responsible to the Executive, and his political party would, in turn, accept full responsibility before the electorate for the NEC's actions. As a counterbalance, a permanent Joint Congressional Committee would be created to maintain watchful liaison with the NEC. The public would have a direct line of access through hearings of the Joint Committee and would express its final opinion through the ballot box.

Insoluble dilemma

It might be objected that placing the NEC in the political arena would jeopardize its existence. But responsibility for economic growth and stability cannot be insulated from politics in a democratic society. If an NEC were to fail because of the political problem, then the New Capitalism would be faced with an insoluble dilemma.

Looming beyond the specifics of the NEC is an element that is as important as it is indefinably vague, the problem of economic theory. The NEC itself would embody and carry out policies on the basis of abstract theories, just as our governmental agencies, in their uncoordinated way, do today. Like the present policymakers, the NEC would not escape the fact that economic theory is always in a state of becoming obsolete, as structural changes take place in the economy. We must recognize the fact that there is a lag between the time a problem becomes important and the time we have an adequate theory to deal with it. The reality of the New Capitalism is already advanced well beyond the theory of it today.

This lag in theory is another argument for an NEC, which could help reduce the delay by capturing the nationwide implications of a problem and focusing them quickly. The NEC would thus be a useful vehicle not only for providing the administrative means of solving major problems; it would also help broaden and deepen the national consciousness of these problems. Our national and international responsibilities place ever-increasing demands on that consciousness. ■

Challenge Profile

Adolph A. Berle, Jr.— Capitalism's Counsellor

■ A REPUTATION for intellectual brilliance is one of the most excruciating handicaps in our society. Adolph A. Berle, Jr. suffered that affliction early because he was a child prodigy, but he has added to it by winning adult distinctions and, at 63, he gives no sign of relinquishing his lead over contemporaries.

Although easily classifiable as an institutional economist, Berle has maintained a lack of bias that has blocked his entrance into any party camaraderie. Businessmen mistrusted the New Deal official but the New Dealers watched him veer away from the group.

In 1933 Berle was concerned by the lack of effective stockholder control over corporations. This precocious awareness of the quiet revolution, documented in a book written with economist Gardner Means, was irritating to both conservatives and progressives. Conventional businessmen preferred to insist on their responsibility to stockholders; left-wing liberals did not want to give up an easily definable villian like the economic royalist, in place of a nightmarish plurality of images.

"The dissolution of the atom of private property," Berle wrote, "destroys the very foundation on which the economic order of the past three centuries has rested." It was the managerial revolution, which James Burnham was to salute more loudly in his 1941 book. But Berle conscientiously noted that the thesis was first articulated in 1918 by German industrialist Walter Rathenau.

Compensating with vigorous action for his small body, Berle has been Professor of Corporation Law at Columbia Law School since 1927, member of the early New

With each issue CHALLENGE profiles a person whose thinking affects the pace of the United States economy.

Deal group, Assistant Secretary of State from 1938 to 1944, and Ambassador to Brazil the two following years. The failure of that brilliant career to continue in the key area of policy is less a reflection on the man than on the administrative complex that found his intellectual quality uncomfortable.

Berle has not been afraid to admit his errors. In his 1954 book, *The 20th-Century Capitalist Revolution,* Berle admitted that he had been wrong in holding that corporate responsibility was essentially a stockholder matter. But he had never excluded the need for community responsibility.

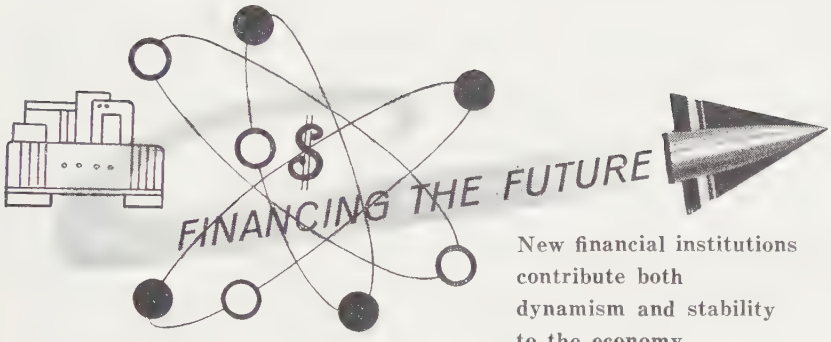
The recent book noted that 135 corporations own 45 per cent of the nation's industrial assets, a situation he was prepared to welcome cautiously: ". . . a far more effective, far more sensitive, and (to the writer) a far more appealing organization of affairs than ever was described under the aegis of laissez faire. With its successes, come failures; with its values, defects; with its great possibilities, great dangers; in fact, great adventures in a new age are in the making."

The greatest present danger, according to Berle, is an area of unclaimed corporate power; the stockholders no longer have it, the community fails to recognize it and the managers insist they get their authority from somebody. It is at this point that Berle's clarity dims, and while he suggests limitations of corporate power through public opinion and the nature of oligopoly, he fails to design the administration for implementing the exhortation.

In a magazine article this year Berle recorded another phenomenon that is putting the corporation at another remove from the classical economic world. Pension funds, which now have assets of 35 billion dollars, should level out at 80 billions in 20 to 30 years, he predicted. With those assets, the funds will own 20 to 30 per cent of all good equity stocks–and will have the capacity to increase that share to 50 per cent. Pension trustees are responsible people, but Berle asks: To whom?

Berle praises corporate managers for recognizing community as well as profit requirements, but the danger is not that the corporations have no conscience: "We are treated to the colder, more modern fear that perhaps they do." He prefers that another group embody the conscience.

Berle advocates a new class of "lords spiritual" to balance the political and corporate "lords temporal." If it is, structurally, a medieval solution, he has joined with other modern minds in seeking a deeper content for the American adventure–D.F.



New financial institutions contribute both dynamism and stability to the economy

by John G. Gurley

ONE HUNDRED YEARS AGO our commercial banking system was on the verge of chaos. Commercial banks, the only financial institutions of any size, issued the paper money used in everyday transactions. Some of it was perfectly sound, but at times a good portion of it was practically worthless; few people could tell which was which–until they got caught with the bad money. This situation, so highly disrupting to economic life, was ultimately corrected during the 1860s by the National Bank acts which assigned the job of issuing paper money to federally chartered banks which were required to back their issues with federal government securities.

Fifty years later, the financial structure was again in need of repairs. Investigations and reforms followed a general dissatisfaction with the practices of life insurance companies. There were allegations that the working man was being charged exorbitant interest rates on loans; and out of this came credit unions, personal finance companies, and the elimination of the worst "loan sharks." The Postal Savings System was created so that the small savers, especially among the growing immigrant group, were given a safe place to put their funds. Finally, the Federal Reserve System was set up to improve the operations, so loudly criticized at the time, of commercial banks.

But the excitement about our financial structure has never really died down. Farmers complained that they could not get reasonable loans from commercial banks, and federal institutions were created to meet their needs. Shortly thereafter, in 1929, the stock market went completely wild and then collapsed; the result was a series of regulations in this area of finance. The depression of the 1930s

brought urgent demands that the federal government help home owners, farmers and businessmen who could not meet payments on their debts, and that it prop up the tottering structure of financial institutions with loans and deposit insurance programs. Federal lending agencies like the Home Owners' Loan Corporation and the Reconstruction Finance Corporation rose by the score out of these tragic conditions.

Agitation for reforms

It might be thought that the agitation for financial reforms in our affluent society would have at last disappeared. But, today, many people once again feel that the financial structure requires investigation. Their doubts center on the largely uncontrolled growth of credit unions and pension funds, the inadequacy of our monetary controls, the unregulated expansion of consumer debt, the financial problems of the small businessman, and the size of the national debt.

Almost all of these problems stem from two major developments: "the growing institutionalization of saving and investment," a phrase meaning that borrowing and lending are more and more being done through financial institutions, and the increasing role of the federal government in financial affairs.

A century ago only about 15 per cent of all borrowing and lending was done through financial institutions, principally commercial banks. The lenders put the remainder of their funds directly into the purchase of debts and equities of borrowers. The role of financial institutions at that time in financing the economy's expenditures was thus a modest one.

From 1860 to 1890, the proportion of all borrowing and lending done through financial institutions rose from 15 per cent to 30 per cent. It remained there over the next four decades. Another dramatic change took place when borrowing and lending through financial institutions began to rise sharply in the 1930s and reached 60 per cent by the close of the decade.

The proportion of total borrowing and lending done by financial institutions has thus increased substantially during two relatively short periods. The first upsurge came during the period when the economy was moving rapidly from an agricultural to an industrial status. The second upsurge came after the almost complete collapse of security markets. Each rise doubled the relative importance of financial in-

John G. Gurley is a senior staff member of the Brookings Institution.

stitutions. It is the last one, of course, that has been responsible for the recent discussion of "the growing institutionalization of saving and investment." It is well to remember, however, that the peak was reached at the 60-percent level in the late 1930s, and that we have since remained on the same level.

The annual amount of borrowing and lending in the economy has remained fairly constant relative to the economy's annual gross national product or income. Around the turn of the century, annual borrowing and lending was roughly 10 per cent of gross national income. Individuals, business firms, and local and federal governments are today borrowing and lending to one another the same proportion of their total incomes each year as 50 years ago. What has changed is the share of this borrowing and lending going through financial institutions.

Attractive alternatives

This development has made borrowing cheaper and easier, for if all the debts and equities had to be sold directly to the lenders, who have a strong dislike for many securities, the terms of lending would be a good deal stiffer. At the same time, the financial institutions have performed a service to the lenders by offering them attractive alternatives to these debts and equities. A long-term decline in interest rates occurred in only two periods after 1860, and these were precisely the periods during which borrowing and lending through financial institutions increased substantially.

An important development has been the growing share of borrowing that by-passes the monetary system in favor of other financial institutions like credit unions and pension funds. A century ago practically all of this activity was handled by commercial banks. The banks' share of the loan business slipped to 50 per cent by 1900. In recent years, moreover, the change has been even swifter. Now four times as much business is done each year by institutions outside of the monetary system.

This has created a serious problem for the Federal Reserve authorities. At the time the Federal Reserve was created, just before the first World War, commercial banks were clearly dominant among financial institutions. Consequently, by controlling the amount of borrowing and lending going through commercial banks, the authorities could control the amount going through all financial institutions. Since then, however, the rapid growth of other financial institutions not subject to Federal Reserve control has restricted the

power of the monetary authorities. They control today a dwindling share of the financial business, and so it is not surprising that there is presently a lack of precision in the application of the controls.

The second major development is the growing role of the federal government, which enters the financial field from four directions. First, it does a large part of the total borrowing in the economy, so that its securities are today a major portion of total debts and equities of all borrowers. Second, it insures or guarantees mortgages and other types of private debts. Third, it insures deposits and other funds in private financial institutions. Fourth, through its own financial institutions, it purchases a fairly large portion of private debts and equities.

Financial revolution

Seventy years ago, just prior to the severe depression of the 1890s, a mere four per cent of our financial assets was protected in these ways. That is to say, only four per cent of all funds was invested in federal government securities, private debt insured by the federal government, insured deposits of private financial institutions, or in the federal government's own financial institutions. Moreover, we had the same meager protection just before the Great Depression of the 1930s.

A financial revolution took place during the following 15 years. By 1945, 40 per cent of all funds invested in debts and equities of borrowers and in financial institutions had the stamp of the federal government on them. The importance of this change can hardly be exaggerated, although the role of the federal government in the financial field has been shrinking somewhat since 1945.

The government's financial operations have done much to insulate the economy from another major depression. It is also true that we now have a national debt of 275 billion dollars, but this is a large part of the protection against depressions. The total debt of all individuals, business firms and governments in the country is today no larger, relative to total production, than it was in 1880, 1900 or 1945. The fact that at the present time a large proportion of this debt is federal government securities means that the government has been using a large share of real resources to produce goods and services, a situation that permits more effective economic and defense management. Whatever our feelings about these events, the important thing is that we now have a debt composition that is much stabler in case of a business downturn.

Two major financial revolutions

–one institutional and the other governmental–occurred between 1930 and 1945. At the close of this period, we probably had the soundest financial structure that we have ever had. With 40 per cent of all financial assets protected by the federal government in 1945, and with many funds in financial institutions indirectly protected by large holdings of federal government securities, there was never a more solid financial base for the growth of private enterprise in our history.

Favorable factors

Private enterprise took over, encouraged by huge consumer demands for goods. The result was a tremendous growth of private debts and equities over the following 12 years and no growth at all in the debt of the federal government. It was comparatively easy for consumers and business firms to sell their debts and equities because financial institutions purchased most of them. This was made possible by a concatenation of favorable factors. Funds poured into private financial institutions, attracted by federal government insurance protection. The institutions themselves sold a major part of their holdings of federal government securities and thus obtained additional funds to purchase private debts. The federal government also approved some of the debts issued by consumers and business firms and thus made them more salable, while its own financial institutions purchased other private debts.

The great financial role played by the federal government in stimulating private enterprise during the postwar period indicated the financial aspects of this New Capitalism. It is new in that for the first time a prolonged burst of private economic activity has had financial foundations that have been capable of really supporting it.

But foundation cracks are beginning to appear. The government protected 40 per cent of financial assets in 1945; their subsequent growth has outrun protection in many cases and now only 30 per cent are covered. This is much better than the four-per-cent level of protection in the 1920s, but the downward trend is disquieting. At the same time, more and more private debts have gone into financial institutions other than commercial banks, institutions which largely escape control by the Federal Reserve System.

The Federal Reserve has had to clamp down that much harder on the activities of commercial banks in order to compensate for the booming business of the others. This is why borrowers heavily dependent on commercial banks

are finding it difficult to get funds. Moreover, many financial institutions have sold substantial amounts of federal government securities and are today holding riskier private ones, placing themselves in a more vulnerable position.

Our financial history has been perhaps too exciting for adherents of right reason. Bank failures have marked its path, and the 1929 stock crash was the most shattering economic disaster the world ever experienced. These warnings out of the past need not frighten us, particularly since we have introduced measures that make for real stability. But it is possible for us to find an argument for studying any new factors or changes.

Events have a way of getting ahead of institutions, and we shall find it necessary to add improvements to our present institutional structure. The FRB's limited control of the financial market is a situation of potential danger; secular inflation and the erratic velocity of money indicate that the problem is already a present one. Another area for concern is the stock market, which boomed agreeably in the face of the last recession but with stock prices very high in relation to dividends.

Despite these indications, the foundations erected in 1930-1945 still seem to be remarkably strong. This might nevertheless be the time to get down on our knees, not to pray, but to determine just what strength the foundations still have. ■

Fiscal Eloquence

•"FIRST OF ALL, monetary policy suffers from the unfortunate absence of an occult effect. It has long been clear that economic management, especially in the United States, would be greatly facilitated if resort could occasionally be had to witchcraft."–*John K. Galbraith*

•"SPECULATORS may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the monetary policy of a country becomes the by-product of the activities of a casino, we can expect little in terms of capital development."–*John Maynard Keynes*

•"UNHAPPILY, faith or urgent need is not an assurance of practical performance. Even if, as bankers have suspected, doubts about monetary policy have on occasion been the invidious reflection of doubts about bankers, this still does not insure that any monetary policy will work. The ultimate enemy of conventional wisdom is circumstance."–*Joseph A. Schumpeter*

C. Douglas Dillon

Under Secretary of State for Economic Affairs

The Economics of Foreign Policy

Q *Mr. Secretary, how long has the State Department had an Under Secretary for Economic Affairs?*

A The Department of State has had an office performing functions similar to this one for about five years. I filled it myself for a year and a half. Then in July, 1958 it was upranked, so to speak, to the level of an Under Secretary.

Q *Why the "upranking," to use your word?*

A It was done in recognition of the fact that economic matters have become a vitally important part of our foreign policy. My office is intended to provide direction, at the top, for all the economic relations of the United States.

Q *Can we say, sir, that the upgrading also reflects the proven effectiveness of economic diplomacy?*

A Possibly. But when you use the term "economic diplomacy," you imply that this is something different from diplomacy in general. My feeling has always been that the economic aspect of our foreign relations is an integral part of our whole foreign policy, and that you can neither separate it from the other elements that make foreign policy nor make clear distinctions between purely political and purely economic objectives in foreign policy.

Q *Mr. Secretary, we have always had official diplomatic representa-*

tion abroad to assist nationals doing business in other lands. Does your office become involved in such economic representation also?

A Yes. We also have a Bureau of Economic Affairs, headed by an Assistant Secretary, which gives day-to-day attention to this aspect.

"We are trying to strengthen economies"

Q *Is there any real difference between economic warfare and economic diplomacy?*

A Yes, there is. The difference is the same basic one that exists between warfare and diplomacy in any form. I do not think, for example, that the economic aspects of American foreign policy can be characterized as economic warfare. Warfare implies something that is designed to disrupt or destroy. The term "economic warfare" came into current-day use when the Soviets launched their economic offensive to infiltrate underdeveloped countries as a further step toward world conquest. Our diplomacy is intended to strengthen the free world rather than to weaken other countries. We are trying to strengthen economies and to encourage free peoples. I call what we are doing economic diplomacy, something quite distinct from economic warfare.

Q *How much money have the Soviets put into their economic offensive?*

A The first Soviet loan to a country outside the Communist bloc, apart from ordinary commercial credits, was in January, 1954, when the Soviet Union extended to Afghanistan a loan of 3.5 million dollars for economic and technical assistance. Since that time Soviet credits and grants to the less developed countries, outside the Soviet bloc, have totaled more than 1.9 billion dollars, a much smaller figure than the total of American foreign assistance during the same period.

Q *In view of the more sizable sums that we are spending abroad, has the Soviet economic offensive made a real impact, or have we frightened ourselves into believing that the impact is much greater than it is?*

A I think the impact of the Soviet economic offensive is undeniably real. And I would not say that the impact is particularly disproportionate to the monies they have expended. The Soviets have given very substantial economic assistance to a few countries where they have par-

ticular interests. In such countries their assistance has been very substantial: 500 million dollars to Egypt, and 300 million dollars to Syria —a total of 800 million dollars to the United Arab Republic alone. Now, I should imagine that the fact that the Soviets have given so much to one or two countries would lead a number of other countries in the underdeveloped areas to think that possibly the Soviet Union is prepared to do the same thing for them.

Q *Can the Soviet Union multiply such massive assistance?*

A I don't believe that the Soviet Union has the capacity to do that. But it can and has conducted a very large aid program, amounting to, as I have said, 1.9 billion dollars to date, for certain handpicked areas. That sum does not include programs for places like North Korea and North Vietnam, and other satellite countries.

Q *But certainly 1.9 billion dollars seems puny compared to the many billions that we have been appropriating annually.*

A One reason why their figures look small compared to ours is because our aid appropriations include sums earmarked for all our allies, not just the aid we furnish to neutral, uncommitted nations; while their figures, I repeat, include only funds furnished to neutral countries and exclude the assistance furnished by the USSR to its allies. Another reason why the Soviet offensive has had a big impact is their package approach, involving propaganda appeals of one sort or another as an integral part of Soviet economic assistance. The Soviets claim that Soviet bloc countries are more sympathetic with problems of underdeveloped countries than are the prosperous and highly complex economies of the "capitalistic" West. Moreover, the Soviets associate themselves with political lines that are popular in countries receiving economic aid: the anti-Israel line in the Arab states; Kashmir for India; Pushtunistan for Afghanistan, and so forth. The "colonialism" of Western countries is a constant Soviet theme, which they seek to contrast with Soviet support for the elimination of all vestiges of Western influence. In addition, in the local Communist parties and associated organizations within various countries, the Soviet Union has a public relations office which gives continuing publicity to Soviet aid out of proportion to its true value.

Q *Are you in a position at this time to tell us whether there will be any major shifts in our economic policy abroad?*

A I don't think we need any major shifts. I think what we do need is a greater total effort, the assurance of stability and continuity, and more flexibility in administration than we have had. As far as continuity is concerned, I believe that the recent passage of the new reciprocal trade legislation has shown the world that we shall continue to work toward lowering the barriers to trade. Approval of a four-year extension of the law was very significant, for it represents the longest period of extension in the history of reciprocal trade legislation. And, of course, the Mutual Security Program has been continued at a substantial level, although it is not as large as we think it should be.

Q *What about the Middle East, Mr. Secretary? Is there any change in our economic policy for that area in view of the general understandings reached at the special session of the United Nations this summer?*

A As you know, President Eisenhower, in his address before the General Assembly, was quite clear about our willingness to help the countries of the Middle East to achieve economic progress and peace. If the Arab states desire to establish a regional development institution and to give it their full support, we are prepared to support it. We stand ready to cooperate in such a program because we think the economic development of the Arab peoples is an important factor in the future peace of the Middle East.

"Our policies and programs are not well enough understood"

Q *Mr. Secretary, the American taxpayer is conscious of the costs involved in our aid programs abroad, and other economic programs, like the General Agreement on Tariffs and Trade, have had strong opposition from domestic industries. Do you think an adequate job has been done to acquaint people with what your office, for example, is trying to accomplish?*

A The most important thing in handling this problem, as you have suggested, is to get the story to the people. But that is difficult to do, because our activities generally are not very newsworthy. The press around the country does not give much space to what is happening in

this field, except occasionally when somebody makes a mistake, and that makes a big story. I agree that we need to do a better job of getting the facts across to the American people, because our policies and programs are not well enough understood. If the American people have the facts, they will make an intelligent judgment in the national interest.

Q *Much of the criticism at home of some of our foreign economic policies stems from the belief that free enterprise is being smothered by government activity. Do you believe that our free enterprise institutions are being circumvented by government acting as the prime mover of capital abroad, as part of our economic diplomacy?*

A Such objections flow primarily from misconceptions about the process of economic development. In the first place, the annual economic activity of American private business abroad certainly exceeds the total economic assistance that flows out from this country through governmental agencies. But some of the basic needs of the less developed countries, the needs that must be fulfilled before they can experience any industrial or great economic progress, involve adequate communications, highways, railroads, ports, things of that nature which are just not susceptible to financing by private enterprise and which have to be financed through government channels. If the government did not provide funds to create these basic facilities, developmental programs would be less possible and private enterprise probably could not move in at all. The record shows that in areas where these basic things are better established, such as in Latin America, private enterprise has been able to move in to a considerable extent.

Q *Would you then say that private enterprise is not suitable for many kinds of basic developmental projects?*

A Yes, insofar as providing capital for such projects is concerned. Of course, private enterprise can be and is very helpful in the engineering and construction of such projects.

Q *If that is true, how can we convince a country like, say, India, that government planning and a strictly centralized economic system is not always the best way of doing things?*

A I don't think we should try to convince the Indians of anything.

They have got to make up their own minds according to their own experiences. They have had a remarkable object lesson recently in that the private sector of Indian business has expanded at a rate five or six times as fast as the government thought it could. The job done by private industry there has been tremendous, and the Indian government now realizes fully the importance of private enterprise. On the other hand, private enterprise hasn't come forward at all for the construction of railroads, the deepening of ports, the building of irrigation projects, and so forth. The Indians realize that these can only be developed through government action, with funds obtained either from other governments or from institutions like the World Bank.

Additional markets for United States goods

Q *We ought not to compare the development of the United States with the development of areas we are trying to assist.*

A That is right. Let us take the example of the railroads in our country. They were privately built. The only reason we could do it was that we had a surplus of land which could be granted freely to the railroads. This attracted private capital. No such action as that is possible in any of the underdeveloped areas of the world today.

Q *Mr. Secretary, what about the old fear that if we help other countries develop industries of their own, we shall ultimately hurt ourselves?*

A That idea is surprisingly widespread, but the facts show how fallacious it is. Europe, for instance, where competition with us is more effective than it was 15 years ago, buys much more from the United States today because European standards of living have gone up. It is in our over-all interest to increase standards of living and to strengthen other countries, because the markets they develop will be so huge that their own economies will not be able fully to satisfy the needs. They will provide additional markets for United States goods.

Q *What is the long-term prospect for private investment capital in countries now receiving assistance from the United States government?*

A If international tensions in these areas lessen, and if constructive

steps are taken by the less developed nations to develop basic facilities such as transportation, power and communications, an increased flow of private investment capital may be expected to follow. This is the long-term prospect. Until the necessary basic facilities come into being, government will remain an important supplier of capital funds to the less developed countries. As far as the foreign policy of the United States government is concerned, we have nothing to lose and everything to gain from the economic progress of other peoples. We want to continue to help these endeavors.

Q *Thank you, Mr. Secretary.*■

U. S. Bilateral Aid Commitments to Less Developed Countries Fiscal Years 1953-58. (In millions of dollars)

Fiscal Years	Eximbank	DLF	ICA	Public Law 480		Others	Total
				Title I	Title II		
1953-56	624.7	—	3264.3	283.0	103.2	448.0	4723.2
1957	362.4	—	1246.5	477.1	45.9	115.9	2247.8
1958	732.8	225.2	1004.8	290.1	50.0	n.a.	n.a.
Grand Totals	1719.9	225.2	5515.6	950.2	199.1	563.9 (1953-57)	6971.0 (1953-57)

Legend

Eximbank: Export-Import Bank; a public corporation that makes dollar loans to facilitate trade between the U.S. and any foreign country.

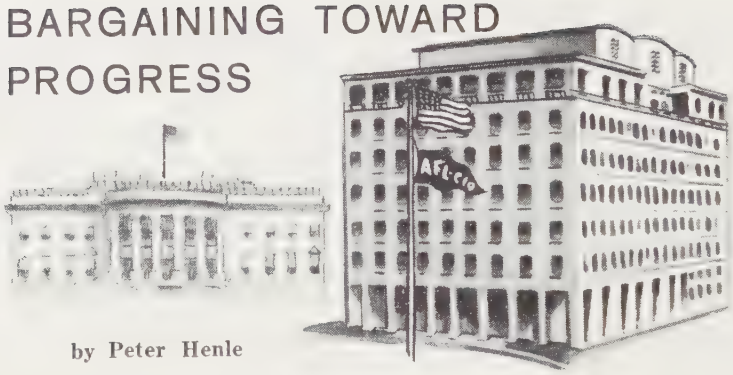
DLF: Development Loan Fund; a special program within the ICA which participates in the financing of economic development of the less developed countries of the free world.

ICA: International Cooperation Administration; a semiautonomous unit of the State Department which has responsibility for the administration of all nonmilitary mutual security programs.

Public Law 480: enacted July, 1954 authorizing agreements to accept local currency in payment for exported U.S. surplus commitments.

n.a.: not available.

BARGAINING TOWARD PROGRESS



by Peter Henle

Unions retain their old militancy while accepting responsibility in the new institutional order

■ TODAY'S CAPITALISM is a far different animal from the predecessor that roamed this country during the last century. Among the significant changes are the development of the mass consumer market, a greater degree of social responsibility by all elements of the economy, a greater recognition of the constructive role that government must play in economic life, and a truly impressive rise in the average citizen's standard of living.

Whether these changes add up to something that should now be given the title, "the New Capitalism," is problematical. Unfortunately, capitalism's reputation around the world is somewhat tarnished; perhaps its descendant, though quite legitimate, should not be handicaped by bearing the ancestral name.

But whatever the name, it is clear that the transition to today's economy has brought about far-reaching changes in the role of the worker and the worker's organization, the trade union. As industrialization advanced, the relative decline of agriculture and self-employment left the individual worker with fewer opportunities to work independently. He became more dependent on the impersonal forces of the market for job opportunities and on the good graces of his particular employer for advancement in his job.

With these changes came a loss of independence, security and individuality, with the result that jobs became a stultifying rather

than a creative force in the lives of many workers. This was particularly true in the earlier days of the nation's industry, when hours were long and work particularly arduous.

What could the individual worker do about this situation? The intellectual climate of the times impressed upon him the futility of any individual action. The presumably immutable laws of economics, the "dismal science," upheld the right of the employer to exact as much labor as possible in return for as little compensation as possible. According to this doctrine, any effort by the worker to better his lot would simply lead to unemployment. And if workers did try to join together to protect themselves, their organizations could be prosecuted as a conspiracy under common law.

The road which the early unions traveled was certainly a rough one, marked by considerable violence. The use of spies, strong-arm tactics and intimidation to defeat union organization was too often a standard practice, and the American labor movement became highly militant, perhaps more aggressive than its European counterparts whose ideology stressed class warfare. In the end, organized labor became a major element in building what is now called "New Capitalism," making the following special contributions toward the changes in the American economy.

• Special personal characteristics of the American worker have been of great value. Workers have proved themselves alert, hard working, willing to seek new job opportunities and adaptable to increasingly complex tasks in our industrial economy. The shift to more complicated equipment, to more technical and scientific tasks, has been accomplished without any undue strain on America's manpower.

• Through their unions, workers have ended their exclusive dependence on their employer and have gained protection against arbitrary treatment. Through collective bargaining they have not only raised their own standard of living, but they have also raised the status and dignity of work itself. Today's worker enters the labor force as an adult, has more leisure time and can retire at an earlier age.

• By constant pressure on management to obtain increased wages and more recognition for human values in business, workers' actions have served to prod business into making important improvements in productivity. Certainly, the assumption of risk for profit by an individual entrepreneur is

Peter Henle is Assistant Director of Research with the AFL-CIO.

quite different from the risks undertaken by a modern corporation with its vast numbers of stockholders and its decision-making powers in the hands of salaried managers. By its upward pressure on wages, the union adds an important force for change on what might otherwise be a complacent management.

• Union pressure for higher wages has strengthened the income and purchasing power aspect of our economy. While employers naturally are most concerned about wages as costs, they have neglected the fact that higher wages have made possible a broadened demand for all types of consumer goods. By interesting themselves not only in money wages but in such supplements to wages as unemployment compensation, retirement pay and health benefits, unions have also helped to provide a flow of income which fluctuates far less than total wages and which helps to bolster the economy whenever other sources of income have declined.

• Through their unions, workers have served as the conscience of America by calling attention to a wide range of needed social and legislative changes. Unions have helped to obtain needed action on such issues as child labor, the various aspects of a social security program, minimum wages, tax reform, housing and slum clearance projects.

These are some of the ways labor has made a very special contribution to the development of the New Capitalism. The results of this activity have been evident in the gradual rise in living standards which have been climbing at a faster rate in more recent years as unions have become stronger.

Change in emphasis

At the same time, the gradual evolution of the American economy has also had its impact on organized labor. The goals of unionism have remained the same, but there have been changes in methods and short-term objectives. A more favorable attitude toward unions by employers and the general public has helped produce a different attitude by union officials. Today's emphasis is less on militancy and direct action, more on bargaining and operating within specifically defined rules of procedure, many of which have been incorporated into law. The traditional hostility of unions toward employers has given way to a recognition that many employers have honestly accepted unions. The nation's record of strike activity supports the conclusion that labor and management have been learning to live more peaceably with one another.

What, then, of labor's role in

the New Capitalism? Now that the United States economy has proved so successful, are there any functions left for labor to perform?

This question points up the danger of using such a simple phrase as the New Capitalism to describe the American economy. Such an optimistic phrase is bound to imply that the American economy has reached its zenith and that very little work remains to be done. But has the present system reached such a peak of perfection that labor and all the other elements in the economy can afford to rest on their laurels?

Sore spots remain

The New Capitalism may have curbed a number of the excesses of the "Old Capitalism" but severe sore spots remain:

•It is true that the economy has not experienced a really deep depression since the days of the 1930s. Yet the postwar record of a recession every four years (the latest one raised the nation's unemployment level to 5.5 million and transformed a majority of the major metropolitan centers into "surplus labor areas") is not a pleasant prospect to contemplate for the indefinite future. Despite the supports that have been built into the economy to help prevent a 1929-type depression, much additional work needs to be done before the American economy can operate more continuously at a high level of employment.

Moreover, there is general concern over another economic problen–inflation. Some of this concern has been exaggerated in the light of the relatively stable price record the American economy has compiled during the postwar period. Nevertheless, there are many sectors in the economy, particularly the "administered price" industries, where government and private action is necessary to curb unwarranted price increases.

• Although the excessive extremes of wealth and poverty which characterized the Old Capitalism have been alleviated, evidence points up the fact that today's New Capitalism still includes plenty of both.

Certainly it is true that largely through tax policy, the proportion of the nation's income received by the top five per cent of income recipients has declined during the past 30 years. However, huge fortunes are still possible, and the power that corresponds with such wealth can often have an unhealthy effect on the nation's economic and social policy.

With regard to the other side of the coin, it is an exaggeration to claim that poverty now appears only on the fringes of the economy. The traditional group of

families whose incomes are "under 2,000 dollars" has declined from 25 percent of all American families in 1948 to 15 per cent in 1956. At today's prices, however, perhaps 3,000 dollars would serve more realistically as a rough indicator of marginal family income.

Dismal statistics

There were in 1956 more than 11 million families (about 25 per cent of the total) who received less than 3,000 dollars in cash income. Eliminating families who live on farms, there are still more than eight million in this group. During 1956 one-fourth of the nonfarm families with incomes under 3,000 dollars actually had more than one breadwinner during the year. Unemployment, illness, personal problems and broken families play their part in these dismal statistics, but inadequate pay still remains part of the story. For example, in Memphis, the Department of Labor recently found that 75 per cent of all men employed as passenger elevator operators were paid less than one dollar an hour, and 27 per cent got less than 40 cents an hour.

• While the average standard of living has risen substantially, the emphasis has been on privately produced products for the American consumer at the expense of needed public services to be furnished by government. Governmental action in the fields of education, health and housing has not been developed to the scale necessary to support the growing American economy. The task ahead will be to redress this balance so that these public services will be regarded as important as the latest models from Detroit.

• Although competition may be more prevalent in America than in many other countries, the trend toward concentration still prevails in many sections of industry. The attraction of bigness not only in economic terms, but in terms of prestige and influence, has proved so convincing that public policy against it has had only limited success in recent years. It may be true that bigness is, to a certain degree, inevitable in today's economy but better regulations are needed to keep its conduct within proper bounds.

These are four areas of concern which require attention, not just from labor alone, but from all segments of the American economy. The very real achievements of the New Capitalism need not blind the observer to the very real deficiencies that still remain.

A vital role

Unions will have a vital role to play in the New Capitalism. The very fact that America's population has grown, that the most in-

fluential businesses are huge organizations and that group activity is required in our large society for effective action, makes unions more necessary than ever. This does not mean that the role of the union will always remain the same.

A labor force in which increased emphasis is placed on white-collar and technical jobs calls for vast changes in union techniques. The emerging role of women and younger workers, whose attitudes toward their jobs differ from the traditional union member, also means new problems for organized labor. Unions will more often be dealing with workers who have had little, if any, union experience, who have not been exposed to the hardships around which unionism has traditionally been built, and who are employed in jobs in which unions have generally not been accepted.

Honesty and integrity

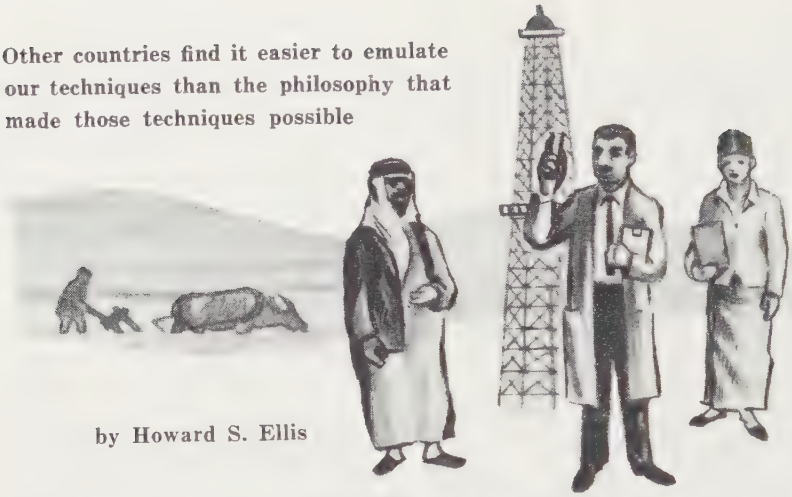
At the same time, the New Capitalism forces unions to pay more attention to the conduct of their internal affairs. The energetic way in which the AFL-CIO has met the challenge of the McClellan Committee hearings indicates that unions themselves can take valuable steps to maintain honesty and integrity in union government. At the same time, unions have been quick to realize that with the growth in union finances and the spread of special funds, some degree of legislative control is needed in addition to their own efforts.

A final question: Do the changes that are taking place in the New Capitalism foreshadow any changes in organized labor's basic attitude toward the American economy?

This seems unlikely. Even when workers and their unions were fighting most bitterly against the excesses of the Old Capitalism, there was a basic acceptance of many of its institutions. In those early days, the battle was fought between those who wanted to emphasize the long-range goal of a new society and those who felt that union action could be successful only by achieving smaller gains within the limits of the prevailing economy. The great majority of union members supported the decision reached at that time, and continue to do so.

Now that the Old Capitalism has given way to the new (in large measure due to those gains which unions fought to obtain), there is little likelihood of any reversal of this attitude. But there still remains plenty of work for unions to do, work which probably will not be done adequately without vigorous union action, even under the New Capitalism. ■

Other countries find it easier to emulate our techniques than the philosophy that made those techniques possible



by Howard S. Ellis

Is American Capitalism Exportable?

■ A VERY LARGE PART of the non-Communist world–and possibly even the populace of some iron- and bamboo-curtain countries–aspires to an "American" standard of living. Less general, but still very widespread, is an evident desire to possess not only the material comforts, but also some of the intangible benefits which seem to belong to the "American way of life." Can these aspirations, at least in some satisfactory degree, be achieved?

Perhaps an ulterior question should first be answered: *Should* the standard of living and the political and economic accompaniments of the United States economy be widely emulated? It would be a peculiar sort of American, indeed, who would answer affirmatively. But by the same token, it would be a peculiarly unenlightened American who would wish that the obvious imperfections of our system also be reproduced elsewhere.

We cannot be proud of cylical unemployment, of inflationary pressures, of traffic congestion, slums, smog, decay of cities at the center, ribbon developments through the countryside, of our relative undersupply of community goods, such as hospitals, roads and theaters. In part, these difficulties may be a *malaise* of modern society, and not specifically of capitalism, let alone the American version. To the degree to which they have been features of our economic system, let us frankly admit their existence and hope

that, in emulating American capitalism, foreign countries will regard them as a remediable–as indeed they are–and not intrinsic part of our society.

In any case, the fact remains that a very large part of the poorer nations would gladly adopt the essential features of the American society and economy if they could command its amenities. Unfortunately, even on the purely material side–which I conceive to be more readily transferable than the nonmaterial or cultural side–the United States has a number of advantages which will make it very difficult for other countries to approach our level of per capita income, even by conscious modeling after our ways of doing things.

Perhaps the most important of these is the heritage of material equipment from past generations. Raymond Goldsmith has estimated our total tangible assets at more than one and one-third trillion dollars, which works out to more than 8,000 dollars per capita. While such estimates are subject to rather wide margins of error, this figure probably greatly exceeds that of our nearest rival and is many multiples of most countries.

And this is far from the end of the story. An affluent country such as the United States devotes a large part of its nonconsumption expenditure to what may be called "personal" capital: general, technical and professional education physical health, etc. Figures giving only tangible capital per capita vastly understate national differences. It requires a fairly long history of high average income, coupled with a strong tendency toward frugality (unless the saving is done by forced work in a totalitarian society), to build up this mass of tangible and personal capital.

Another major advantage possessed by the U. S. is its large one-language area. It would be difficult to discover another block of 170 million persons who speak the same tongue without substantial differences of dialect–certainly not with anything approaching the level of literacy in the United States. What one language can mean in terms of political and social homogeneity and *unity* is difficult to assess; but its power can be appreciated in the United States, when one considers the hodge-podge of cultural extractions of its immigrants from colonial days onward.

From an economic angle, the greatest advantage of a common language, perhaps, lies in its contribution to our mass-consumption market, which, in turn, is

Howard S. Ellis, monetary expert, is Flood Professor of Economics at the University of California.

certainly one of the chief supports of our high per capita output.

Western Europe, which is, generally speaking, a region of capitalist economies, finds political and economic integration a practical requirement today in the effort to maintain a rate of economic advance that will enable it to remain ahead of the USSR during the next few decades. Economic integration can, of course, override language differences; but, communication and human *understanding* are more difficult.

Variety and abundance

Another advantage of the American economy which renders its realization more difficult in other settings is, of course, the variety and abundance of its natural resources. This economic self-sufficiency is revealed by the small proportion of our total expenditure devoted to imports, normally five or six per cent. The only other countries with a comparable variety and abundance of natural resources are the Soviet Union, Brazil, China and India; but in the latter two, the pressure of population absorbs most of the advantage of resources.

If international trade were not obstructed by protective tariffs, import quotas and exchange controls, all countries could enjoy equal access to natural resources, in a fashion contemplated in the Charter of the United Nations. As matters actually stand, this is merely a pious wish. Many of the economically less-developed countries are the very ones which place the greatest obstacles to economic advance by discouraging the inflow of foreign capital and by autarchic measures taken in the name of national self-sufficiency.

Another advantage which might make it difficult for other countries to follow the American capitalist system with equal success is the strong tendency of American business to *innovate.* Indeed, the proponents of the idea of a chronic dollar shortage take the view–erroneous, in my judgment–that the United States more or less inevitably keeps one jump ahead in *all* lines of production.

Competitive character

The tendency to try out new methods of production and new types of goods is difficult to parallel elsewhere. So also is the *competitive* character of the economy, which persists despite some strong elements of monopoly in certain segments. More than 200,000 new enterprises are established in the United States (outside of agriculture) in a typical year, and for 40 years the number of nonagricultural firms has risen faster than population. European capitalism is, by general admission, much

more cartelized than the American; and the generally lower level of output per capita in Europe may be partly associated with this fact.

To continue along this line of argument, however, might prove too much. Other capitalist economies, such as Canada, New Zealand and Western Germany, have also set admirable levels of economic attainment; and Sweden, Japan and Switzerland have demonstrated how much a private enterprise economy can extract from limited resources. These economies demonstrate that the U. S. does not hold a patent on economic success in the purely materialistic sense.

It is within the field of economic and social democracy, especially when conjoined with high average incomes, that the distinctiveness of the American economy is most apparent. What are some of the factors which have contributed to the felicitous combination, called the American "way of life"?

Most important, perhaps, is the fortunate historical fact that this country has never had a caste system. Negro slavery was a violation of this generalization which persisted for many decades, and from which we are only now painfully recuperating. It is doubtful, however, whether even this exception found its way into systematic thinking on the subject: there is, for example, no shred of justification for the institution of slavery in the Constitution. Be that as it may, American society has been relatively free from caste. Even today, after all the modern reforms, the word "peasant" means something in Europe and nothing here. Even visitors from the more "socialistic" economies of Europe, such as the Scandinavian countries or the United Kingdom, usually find a more genuinely democratic feeling in our society than at home.

Diffused control

Another feature of the American economic and political system which may be difficult to duplicate elsewhere is the diffusion of control resulting from what may be called *voluntary* organizations. This refers to the Community Chests, service clubs, church organizations and social service agencies; to the fraternal organizations, and sickness and other types of insurance; to parent-teacher organizations, 4-H clubs, Boy and Girl Scouts, vacation clubs, "big brother" groups in the sphere of youth; to various business and professional groups in the policing of trade and professional practices; and to national organizations of various hues which aim at giving advice on foreign and domestic policies.

These voluntary associations contribute enormously to the feeling of individual responsibility and participation on the part of the typical citizen. They are a most valuable offset to bureaucracy, especially in a large country.

Most observers of the European scene would probably want to add another distinctive attribute of American capitalism: the willingness of business to share gains with the workers. One cannot set this down to a naturally superior morality on the part of American business; part of it has come as the result of labor unions and external compulsion.

Readiness to share

But, in some European countries where these compulsions are even stronger, the readiness to share gains seems more limited. Hence, other forces must be in play. Perhaps Puritanism still has a certain vitality. The long persistence of the frontier with its equalitarian spirit has played a role; and the protracted period of heavy immigration, which was associated with a tradition of opportunities to rise from the ranks, has also helped to establish equalitarian sentiments. However explained, the trend has been toward greater equality and toward "earned" incomes. As Prof. Sumner S. Slichter has pointed out: "In 1940, reproducible wealth per worker was about three times as large as in 1880, but the share of income (going to capital) has dropped from more than one-fourth in 1880 . . . to about one-sixth" in 1947.

A precious amenity

The conclusion which emerges from the foregoing analysis is that it may be easier for foreign countries to emulate the purely material accomplishments of American capitalism than to obtain some of its rather less materialistic characteristics. In some quarters this may seem incredible; yet it has not been the Americans who have preached a doctrine of materialism, but Karl Marx and his followers.

What the United States has claimed to offer is a system of economic and political freedom and opportunity. If, at the same time, this libertarian system has produced the world's highest per capita income, so much the better. But the most precious amenity, from the time of the founding of the republic onward, has been freedom. This is the attribute of American capitalism which we should be most proud to export. It is also the attribute which many of the lower income countries most need to cherish.

It is to be hoped that some of the less materialistic attributes of American capitalism–the absence

of caste, the prevalence of voluntarism in both spirit and institutions, and the readiness of producers to share gains with labor–will indeed be emulated abroad as widely as possible. But cultural change is generally slow, and it often defies the effort of governments to induce it. For countries aspiring to the American level of living, it may be easier to attack the more purely economic obstacles to development.

Thus, while a paucity of natural resources is inevitably a handicap, the economic attainments of Holland, Switzerland and Norway show that the barrier is not an absolute one. Land can be won from the sea, from swamps and the deserts; and if the capital is lacking in many poorer countries for these undertakings, the abundance–and even surfeit–of human labor can be harnessed for development.

The use of labor

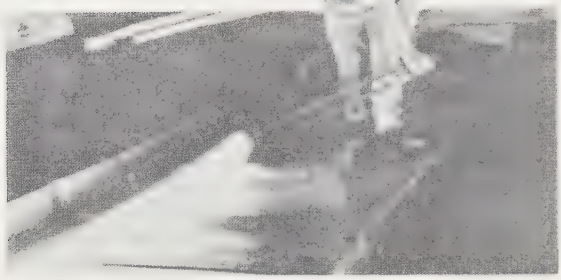
This is not to assert that there is some alchemy by which this can easily be brought to pass. To put men to work usually requires capital. But much can be done with modest amounts. It is possible to throw up earthen dams and to construct large systems of levies by no more capitalistic a method than baskets borne on the heads of men or women. Sizable public works have been carried through in this way in China, Burma and India.

Finally, however, there comes a point at which capital cannot be replaced by labor, however abundant it may be. Once the earthen dam is finished, electric generators must be forthcoming. Sometimes, as in Japan, voluntary private saving produces sizable quantities of capital. In other economies, considerable effort has to be made to evoke private saving through propaganda and the founding of new savings institutions.

Finally, and this is typically the case in the poorer countries, capital for development must be wrung out of the populace through taxation. Foreign borrowing and economic aid from abroad may, indeed, afford a critical margin of help. In the end, however, capital for development must chiefly be supplied at home; but the record of several Latin American countries shows surprising rates of saving, investment and growth of national income.

In fine, American capitalism, not only in its political and ethical aspects but also in its purely economic characteristics, can be reproduced in other settings and can bring the amenities for which it has won renown. Like other good things, the reward will run in rough proportion to the effort which is made to achieve it. ■

Capitalism's New Geography



by Raymond F. Mikesell

Our task is to show underdeveloped areas how capitalism can be used as a democratic and progressive force

■ LET'S FACE IT. *Capitalism* is a nasty word to three-fourths of the people of the world. This is not because many of the leaders of the recently enfranchised nations learned their economics from Marxian textbooks. Nor is it principally because they still feel the wounds incurred in their struggle for political independence from Western colonial powers. A more significant explanation is that the economic systems of these countries embody–or have embodied until recently–the sorriest elements of early Western capitalism, of 18th-century colonialism, and of a local feudalism which has existed for 1,000 years.

In underdeveloped countries there are vast social and economic differences between the owners (the capitalists) and the workers. The common Western experience of rising from the ranks of labor to the head of a large concern is exceedingly rare in Asia and Africa. Responsible, nonpolitical trade unions, interested in promoting productivity as well as higher wages and better working conditions, are virtually unknown in many countries. Likewise, prosperous, efficient-sized farms, owned and operated by a single family with the aid of machinery rather than large numbers of impoverished tenants, are not a part of the economic organization of the underdeveloped countries.

How relevant are the techniques and ideologies of this New or People's Capitalism to the less developed areas? And how can they be transmitted and effectively applied?

We shall preface this discussion by making two basic assumptions: (1) economic growth

should be maximized in the less-developed countries within a framework of democratic institutions and human freedom; and (2) a high degree of economic freedom and individual economic opportunity is an essential aspect of a free society.

The basic principles of economic freedom and individual economic opportunity are embodied in different types of economic and social organizations already present in 18th-century America, when our economic organization was vastly different from what it is today. But, because of differences in cultural background and the stage of economic development, no underdeveloped country could apply successfully the full complement of institutional techniques and ideologies that have emerged in the United States. Rather than try to sell *capitalism, New Capitalism or American capitalism,* we should emphasize the principles of human freedom and the broadening of opportunities for all individuals. And we should seek to transmit the techniques and to suggest the institutional arrangements through which these democratic principles can best be applied in each country.

Not only would it not be feasible to transmit the modern American version of capitalism lock, stock and barrel to the underdeveloped countries, but some of its most significant institutional arrangements are not likely to have much relevance in these countries for many years to come. For example, the wide distribution of ownership of equity shares of large corporations among middle- and even lower-class groups, either directly or indirectly, is not likely to prevail in India or Brazil for a long time. Before the masses of people in these countries come to have a direct ownership stake in industry, they must become holders of life insurance, savings deposits and pension funds, and owners of decent one-family homes or of cooperative apartment buildings.

Nor can we expect to see anything like the separation of ownership from management in the business structure of the less-developed countries that has taken place in the United States. In this country large aggregates of corporate capital required for public utilities, railroads, and large-scale industrial, mining and marketing concerns have been accumulated over generations of rapid economic expansion (and low taxes). The vast complex of financial intermediaries and the savings and investing habits of the public, which have made possible the diffusion of ownership

Raymond F. Mikesell is W. E. Miner Professor of Economics at the University of Oregon.

of these corporate giants, have also been developed over a number of decades. But in the less-developed countries enterprises such as public utilities, transportation and heavy industry are either owned by the state or by foreign enterprise, or in some cases, by small groups of local capitalists. Operation by widely owned domestic corporations in these fields is largely out of the question for many years to come.

A broad frontier

The American pattern of farm ownership is the product of a broad frontier settled by waves of land-hungry freeholders. In contrast, most underdeveloped countries have a limited and overpopulated land area and a different system of land tenure. While programs of land reform are gradually breaking up the large landed estates in favor of small farmers, they cannot duplicate the structure of farm ownership which exists in the United States.

In most underdeveloped countries the subsoil is owned and controlled by the state. A generation ago local governments or colonial powers gave "concessions" to foreign mining and petroleum corporations involving rights to the minerals in the subsoil over very large areas of the country. In recent years there has been a popular demand for the government to revise these concession agreements in favor of greater state control and participation in the revenues from mining and petroleum operations. For this reason, petroleum and mining usually involve some form of partnership with the state.

Backgrounds and structures

Thus, much of what is peculiar to American capitalism may have little relevance in countries with vastly different social backgrounds and economic structures. On the other hand, there is one fundamental characteristic which has perhaps been more evident in American economic life than in that of any other major country of the world: the existence of broad individual opportunities for employment in a wide range of activities and for the establishment of new enterprises. It is this principle and the techniques which further it that should be exported to the less-developed countries.

One means of promoting this principle is to enlarge the commercial and industrial middle class by encouraging the creation of small- and medium-size enterprise, for example. There is a large reservoir of latent entrepreneurship in every society, but it is often prevented from flowering by social custom and rigidity of status, and by lack of capital

and education–as witness the enterprise of many Chinese, Indians, Arabs and Japanese when they migrate to other areas. What is needed is action by the governments of backward countries in enlarging the opportunities for entrepreneurial activities. Such encouragement might involve loans and even equity participation by local development banks; business education, technical assistance and tax relief.

Ability and opportunity

As Dr. Henry Aubrey has pointed out in a recent study put out by the National Bureau of Economic Research, the role of the entrepreneur in the less-industrialized country is, as a rule, quite different from that of the typical entrepreneur in American capitalism. The entrepreneur in a highly industrialized society has the advantage of being able to hire technical, marketing, managerial and financial services frequently unavailable to his counterpart in the less-developed country, who often combines all of these functions in himself. But such combinations of ability and opportunity are rare in the less-industrialized countries. For this reason, special assistance by the local government and by outside agencies will be needed if the private sector of the economy is to flourish.

In agriculture, the development of the counterpart of the 300-acre, one-family farm operated by an Iowa farmer with the help of some 25,000 dollars worth of farm machinery is out of the question for most underdeveloped countries. The problem of land reform is to broaden the ownership base and promote individual enterprise and initiative while at the same time increasing productivity. For many countries perhaps the best compromise between individual ownership and control, and efficient operation, is cooperative farming with a minimum of state control.

The field of labor-management relations is one in which less industrialized countries could profitably take over much from American experience. Yet the enormous differences in background cannot be ignored. There is little genuine trade unionism in most underdeveloped countries. Where trade unions with the power to bargain for wages and working conditions are permitted, they tend to be appendages of political parties, usually parties of the left which are seeking to overthrow the existing system of private ownership. It is obvious that such politically directed labor organizations cannot have as their major goal the achievement of higher wages and better working conditions through bargaining and by

increasing the productivity of the industry. Effective trade unionism and constructive labor-management relations must be built upon a mutual acceptance of an economic system which embraces both private ownership and collective bargaining.

Ideological problem

But these conditions cannot be brought about simply by sending American trade union leaders and employee-relations experts to the less-developed countries. The problem is fundamentally a political and ideological one. Workers must somehow come to believe that they have a stake in free and democratic unionism and in an essentially free enterprise system that makes *bona fide* wage bargaining possible.

How can we assist the less-developed countries in broadening individual opportunities? Much can be done through United States and United Nations technical assistance programs. Community development, educational, agricultural, health and industrial programs of various kinds, all contribute to this goal. What I would like to emphasize in this article, however, is the role of private foreign investment and government aid in creating a democratic enterprise economy in the less-developed countries.

Most of the economic assistance the Western nations have been making available to the poorer countries of the world, either directly or through the World Bank, has taken the form of large loans and grants to governments, usually for government projects. While capital for power, transportation and land development are of vital importance to economic growth, such projects are of necessity under the control of the state. It would be highly desirable if somewhat more attention could be given to broadening the opportunities for local private enterprise in the underdeveloped countries. Of course, it would not be possible for the World Bank or the U. S. government to administer hundreds of thousands of loans to small merchants, farmers and industrialists. This must be done by local institutions, usually known as development banks. The World Bank and our own Export-Import Bank have made a few loans to local development banks, but I believe that such institutions should be given a great deal more encouragement by means of financial and technical assistance directed toward their activities in the small business and agricultural sectors of the economy.

Broadened opportunities

Another way in which individual economic opportunities can be

broadened is through the right kind of private foreign investment. American firms operating abroad train local management and technical personnel, improve working conditions and standards of labor-management relations, and provide an example of a socially minded capitalist enterprise.

While large amounts of American private capital have been invested in Latin America and in mining and petroleum operations in a few Asian and African countries, U. S. private capital outflow to most countries in the politically critical areas of Asia and the Middle East has been meager. Moreover, most of the U.S. foreign investment outside of Canada has been concentrated in the hands of a relatively small number of large U. S. corporations. It would be highly desirable if a larger number of small- and medium-sized American firms made investments abroad. Their impact would be especially beneficial if they were associated in business ventures with local capital and enterprise in these countries.

Some encouragement to private foreign investment is provided by the investment guarantee program of the International Cooperation Administration, by the Export-Import Bank and by the recently organized International Finance Corporation, which operates as a subsidiary of the World Bank. However, I believe that a great deal more might be done in actively promoting and helping to finance U. S. and European private investment in the less-developed countries.

Liberal financing

One approach would be for the U. S. government, or international agency, to provide liberal financing, perhaps up to 75 per cent of the invested capital, to responsible private firms of American or European origin to operate in the less-developed areas, preferably on a joint basis with local private capital. Such a program would need to be accompanied by broad promotional and technical assistance activities designed to acquaint potential investors with investment opportunities.

If a larger proportion of our foreign assistance funds could be directed toward promoting local enterprise abroad and toward encouraging a larger flow of American and European enterprise to the less-developed areas, the economic impact of our total foreign aid dollars might be multiplied severalfold. But more important, by broadening individual opportunities we would be doing a better job of transmitting the most significant characteristic of America's democratic enterprise economy. ■

cup and saucer

The recession has destroyed the most popular cliché of its brief existence. Most economists had agreed that the slump would "saucer out," but the image was broken against a wall of statistical fact. The initial recovery came much more sharply than expected; the recession was cupping up and possibly out. Still lacking assurances that recovery would continue at the same rate, observers could, at least, note that the slump had never obeyed the description implicit in the cliché. Its downward slope had also been steep, with the result that it developed into the shape of a particularly racy-looking tea cup.

profit gloss

Business was in an excellent position for maneu- verability. Reacting vigorously, it stripped away marginal items and now had its costs under control. The three-per-cent increase in manhour output would cancel out the cost of this year's rise in wages. Inventory liquidation was continuing, but the annual rate was nearly halved from the precipitous eight-billion-dollar drop in the first quarter of this year. Capital outlays, which were stabilizing in the second and third quarters at annual rates of 30.3 billion dollars, were expected to rise to the rate of 31 billions in the final quarter. Profits would be down nine billion dollars this year from 1957's 43.4 billions, but the modernized plant stood ready to satisfy new consumer needs and make up for past declines.

durable consumption

Recovery would depend on the consumer purchase of durables, and on business investment in plant and equipment. The summer sales of appliances were encouragingly, if modestly, above the levels of the previous summer. But the major element was the American automobile. This year's sales would fall to an estimated 4.2 million, but manufacturers were hoping for a rise to 5.5 or six million in 1959. Used car sales gave a measure of support to optimism; sales were excellent during the summer, despite prices that were five to eight per cent higher than a year ago.

automatic drive

Surveys have shown a close relation between unemployment and car registrations, and the unemployment decline well below the five-million figure was a favorable sign. During the first quarter of 1958, the six states with the greatest unemployment had the greatest drops in automobile registrations. The 22 states with less than average unemployment experienced the slightest registration declines.

good earth

The farmers continued to enjoy the period of stability and prosperity that had taken form in 1956. Farm assets at the beginning of this year were at the record level of 187 billion dollars, up 10 billions from the previous year. The increase was the sum of a seven-billion-dollar rise in the value of farm real estate and three billions in livestock values. The realized net income of farmers was up 22 per cent in the first half of 1958 as compared with the similar period of the year before, from 10.8 to 12.1 billion dollars.

other side

The advantages of a boom period are obvious; it requires a stauncher sense of appreciation to take note of the favorable factors of a recession period. But the housing industry did take practical action on the balance of economic good and evil. The business slack made more credit available for residential construction, and housing needs supported by stable personal incomes provided the force for a building boom. Pri-

vate housing starts had passed the annual rate of 1.2 million units by July. New houses were selling well and the contractors were reporting low inventories of unsold residences. The housing industry was compensating the economy for the advantage it had taken of the recession; the housing boom was one of the major elements of the recovery. Intensification of effect came from the fact that construction, both residential and business, accounted for 12 per cent of the gross national product in 1957 against eight per cent in 1947.

basic english

Government action was having a delayed but forceful effect on the economy. The basic budget figures show the magnitude of Washington operations. Estimates for the deficit in fiscal 1959, which began this July, hover between 11 and 12 billion dollars. Expenditures have increased over fiscal 1958 by 6.6 billions to 78.5 billion dollars, while receipts are expected to decline from 69.1 to 67.7 billions. More government money is being spent for pay increases, particularly in the military forces, and for unemployment compensation and housing loans. Besides using federal grants-in-aid, the states would be spending three billion dollars more in 1959 on their own. The question of inflation must inevitably be appended to any view of the government's actions. If the recession had merely flattened out the rise in prices, we could be sure that big deficits and the unsolved problems of debt management would combine with other factors to remind us again that booms have their disadvantages, too.

* * *

vital decisions

WASHINGTON—This city is never without its problems, but autumn finds the problems compounded by the need for some big decisions. Every candidate for office has his own set of solutions, and every piece of campaign oratory compounds the problem of developing a consensus on vital decisions that must be made by men who guide the destiny of the nation.

While we fight to preserve our standing in world opinion, the issue of desegregation in our schools deeply wounds potential allies. The slow but steady pace of economic recovery has disproportionately spurred the forces of inflation. The promise of a 12-billion-dollar deficit in the budget frustrates all men who fear our needs have begun to outrun our resources.

hold that tiger

As we go to press, the United Nations has convened to hold what Secretary of State Dulles has termed perhaps its most significant session. The Far East is the center of attraction at the moment, and once again the United States finds itself unavoidably holding a tiger by the tail. As during the Middle East crisis, the American stand seeks to prevent the geographic expansion of Communist influence. But once again the time and place for this stand do not have the wholehearted support of our allies, to say nothing of others.

a hot war?

Unlike the Middle East situation, however, the ingredients of compromise are not readily available in the Far East. The Arab countries chose to remove their problems from the framework of the East-West struggle. Quemoy and Matsu have no such convenient place to go. If the Communist Chinese press on with their intent to take these islands, war is a real possibility. If the UN makes a strong bid to neutralize Formosa, then the offshore islands might be turned over to the Red Chinese. The U. S. will accept this compromise, if Communist China fails to win a seat in the UN. The bilateral discussions currently in progress in Warsaw between the U.S. and Red China will decide how much more discussion there will be at the UN.

Arab plans

The Arab countries will present their plans for international cooperation in the development of the Middle East. Any such plan will be workable only if Israel receives substantial assistance from other governmental and international agencies. ■

The 'NEW' Communism

Khrushchev tries to add a pinch of pragmatism to the stiffness of the Soviet system

by David J. Dallin

■ ECONOMIC SYSTEMS evolve by their own logic and intrinsic forces rather than according to preconceived schemes. In the course of time, "capitalism" and "communism" have developed into something quite different from what the spiritual leaders of these systems conceived them to be or expected them to become. The latest developments in the Soviet Union prove how strong the impact of the unforeseen and unexpected can be upon an economic system.

For the national economy of the Soviet Union the five post-Stalin years have seen not only a quantitative upsurge but also a qualitative reorganization of both industry and agriculture. This reorganization has directly affected a large section of the state machinery, involving the abolition of about 25 ministries and the emergence of more than 100 new Councils of National Economy. Far reaching though reorganization has been, the basic principles of Soviet economy–state property, state enterprise, collective farms–have been left intact. Those who expected that the tolerant attitude of some of the satellites toward small trade and the private peasant sector would influence the Soviet Union's attitude toward this phase of the economy have been proved wrong.

Nevertheless, the reforms have been both substantial and symptomatic. For they touched on one of the most essential principles of communism–the "planned economy." Despite all protestations to the contrary, the old principle has been put in doubt, and it can hardly ever be restored to its initial completeness.

It is hard for the present generation to realize what planned economy meant in the first decades of the Soviet regime. Planned economy was not simply a working method; it was a sacred principle, a component of a faith, a near cure-all. Planning was the counterpart of capitalist "anarchy of production"; it would eliminate depressions and unemployment and pave the road to progress and universal well-being. Hundreds of statements about the benefits of the plan were uttered by the founding fathers, in particular Lenin, during whose era Russia's industry and trade were revamped into a planned economy. Stalin followed suit, and during his era the collective farms and the MTS's (Machine-Tractor Stations) extended planning to agriculture.

The early years from 1918 to 1920, though full of tragedy and civil warfare, were also the years of excitement about planning. The real father of economic planning was not Lenin, but a man whose name is remembered today only by the specialists–Yuri Larin. I knew this interesting, talented, unstable and controversial former rightist Menshevik who became a Bolshevik in turbulent 1917. Larin suffered from progressive muscular atrophy, an incurable disease. He was unable to control his limbs, and he walked and talked with difficulty. Tall and handsome, with burning black eyes, he was a fascinating personality. Completely absorbed by a fixed idea, he lived as one in a spell.

During the first World War he lived as the political emigré correspondent of a Moscow newspaper, *Russkiya Vedomosti,* in neutral Scandinavia, where Larin reported on the developments in Germany. For the first time in the history of Europe, the Germans, hard pressed by the British blockade, had to introduce rationing and manage entire industries according to need and priorities. Larin, the Socialist, saw in German planning the pattern of the economy of the future.

Moving rapidly to the left, Larin joined the Bolsheviks and from the very start concentrated on economic matters. Because of his record as a writer and political leader, he enjoyed the full confidence of Lenin and Trotsky.

David J. Dallin, author of 10 books on Russia, has a personal acquaintance with Soviet events.

Larin wrote sweeping decrees, which he signed on behalf of Lenin, ordering the creation of various "main administrations" and "central administrations," each of which embraced a whole branch of industry, large networks of units "expropriated" from their former owners. The "administrations," with their local agencies, rapidly grew into huge bureaucratic institutions which, while inefficient, were spectacular in their "all-Russian" scope and powers. Larin was eventually recognized by the Soviet government for what he really was–an honest inventor of impossible schemes and wildly projected statistics. He was removed from his high posts and lost his influence. He died in 1932.

Push-button apparatus

Many of Larin's achievements, however, were maintained. He wanted to have the national economy working like an "apparatus" –a huge push-button motor. Everything–railways, plants, agriculture, foreign trade–would work according to an all-embracing timetable.

In practice, the shortcomings of this universal plan system were many and obvious, but over the decades the orthodox Communist governments, in their attempts to reduce the shortcomings, applied minor reforms rather than sweeping general revision.

There was, however, one small group of Communists, who had been driven from the temple in the forties, but who had the courage and opportunity to build a national industry on a different, though Communist, basis: Tito and his regime. Although, as Communists they were unwilling to reinstate a private economy (which they limited to agriculture), they wanted to do away with the "bureaucratism" of the Soviet type of industrial organization. For example, the managers of Yugoslav industrial units were elected locally instead of being appointed from the center, and the workers took part in the elections. Each industrial unit set its own plans and goals, and the units openly competed with one another on the market. Although an overall plan did exist, it did not abolish competition or the market. In Stalin's eyes, the Tito plan was a reintroduction of capitalism.

After Stalin's death, when the wave of anti-Stalinism began to spread in the satellites as well as in Russia, economic centralism came up for revision. In the search for something new, within the framework of communism, eyes turned to the Yugoslav experiment. In May, 1955, when Khrushchev and his group of Soviet leaders made their first Canossa-pilgrimage to Belgrade, they

closeted themselves with Tito's leaders on the beautiful island of Brioni for about a week. The triumphant Yugoslavs now had the opportunity to depict for their repentant and rediscovered Soviet comrades their new methods of industrial management. Had they been unfaithful to the great all-embracing plan? Of course. But they had gained, they believed, a more efficient industry.

Returning home, the Soviet leadership, still in an anti-Stalin mood (the mood lasted until October, 1956), began to discuss a revision and revamping of Soviet industry. Later, Soviet agriculture, too, came up for reorganization. The Yugoslav pattern was not taken over in Russia: there was too much worker "self-rule" in Tito's system. Besides, simply to follow in the steps of the little brother would hardly enhance Soviet prestige. But His Majesty, the Plan had been dealt a blow.

Assumed wide powers

More than 100 regional Councils of National Economy (*Sovnarkhoz*) were set up, and administration by the economic ministries in Moscow was abolished. The Councils, appointed by the governments of the individual Union Republics, assumed wide powers and took over responsibility for production, supply and finances. An over-all *Gosplan* (state plan) for the preparation of all kinds of short- and long-range plans continued to exist as a matter of course. But the day-by-day management of production was now in the hands of new local bosses. By mid-1956 the reorganization of Soviet industry had, in the main, been completed.

The inveterate Stalinists, who deep in their hearts continued to stick to this old philsophy, had a field day once again after the Hungarian and Polish crises in the fall of 1956. In their view there had been too much deviation from planned economy, just as there had been too many concessions to "national roads to socialism." And they could easily prove their thesis by pointing to shortcomings which, they said, had resulted from insufficient planning. From Krasnoyarsk, *Pravda* reported, for instance, that the bosses of the lumber industry "are violating state discipline. They give direct instructions to the heads of certain enterprises of the industry to ship lumber first to the cities and regions of their own area," instead of fulfilling commitments to other regions. In Minsk, out of 14 industrial plants, 12 did not fulfill their delivery quotas.

As a result of such complaints, the Supreme Soviet, on April 24, 1958, decreed that nonfulfillment, by heads of industrial units, of

plans and assignments for delivery of goods to other areas will be considered "gross violation of state discipline."

But planism continues to decline. The more recent abolition of the MTS's, a corollary to the industrial reforms, deprives the state of another of its mighty instruments to control agriculture. Collective farms, though a Communist-type institution, will now be more independent of "the center" than they were in Stalin's time; they will accord priority to local interests over the needs of Russia as a whole.

Where will these new trends in Russia lead? Will the now rejected centralized system be replaced by a multitude of small units? Will a "free" market reappear? Will private initiative be reinstated? Or will ideological taboos impede further evolution?

To answer these questions we have to think in terms of long historical periods, in terms of generations rather than years. Political tactics can be changed overnight; ideological evolution is slow. It took Russia only a few days to turn from "antifascism" to a united front with Nazi Germany, but it took more than 12 years to turn away from the egalitarianism of the first Soviet era to open recognition of "inequality." And it took nearly four decades to dismantle the sacred facade of planning.

Provided that Soviet power continues on the same political basis as hitherto, and provided that no internal or external upheaval upsets the general system, it may safely be predicted that, in the course of time, rationality will more and more prevail over faith in old tenets, calculation will prevail over consistency, and planning will become less and less rigid. The first area in which private economy will be reinstated, although on a small scale, will be agriculture. Small trade may follow. Finally, private initiative in one form or another will be called upon to repair the wrongs inflicted on Soviet industry by the workings of a cumbersome bureaucratic machinery. This change will not mean that Russia is taking a leaf from the present Western setup–if only because the Western system is itself in a process of profound revamping.

This economic evolution in East and West, however, is not tantamount to an automatic political rapprochement, for, rejecting another "law" of economics and politics, we must recognize that relationships between great powers have their own ebbings and flowings, their own problems, their own unpredictable dangers, tensions and relaxations, most of them independent of economic developments. ■

ROLLING READJUSTMENT IN IDEAS

by Martin Bronfenbrenner

■ WHAT ARE college professors telling my children about our economy? How does management describe the workings of private enterprise to its workers? How do the trade unions explain their functions?

These questions are important because we live in an ideological age, when beliefs about our institutions carry much of the force of religious beliefs a century ago. While religion emphasizes the ideal over the visibly real, we demand that our secular ideas conform to our conceptions of reality. We are thus insisting on formulas that range from practical explanations to faith and hope. The answers as given by the professors, managers and unions are juxtaposing themselves to create a portrait of our age.

One of the peculiarities of the New Capitalism is its *ad hoc* character: the theory is related to specific phenomena, like employment and depressions, and is not generalized in the universal terms expressed by an Adam Smith or a Karl Marx. John Maynard Keynes called his most important work a "General Theory," but despite its great impact, it has been received as a special theory and not as a replacement for the older general theory.

It is significant also that many new ideas have come from conservative sources. The radicals, who had been so important in developing new formulations, have given way in recent years to defenders of capitalism. It is true that the old justifications for capitalism had lost their power to per-

suade, because the rules of Adam Smith's world were being contravened in many areas of society. But at this stage, capitalism has been given new theoretical bases, precisely when radical thinkers have been unable to advance from old concepts that have lost contact with reality. Adam Smith has worthy successors today; Karl Marx has none.

Impersonal law

Economic conservatism was a relatively simple matter in the last generation. Competition for higher incomes operated through the impersonal law of supply and demand to assure that the right goods were produced in the amounts people wanted, and by the most efficient methods possible. Reasonable stability was maintained by keeping the budget balanced and the dollar convertible to gold. Special privileges and exceptions like patents and tariffs existed, but these were the normal inconsistencies and special situations of human society.

The conservative approach was supported by exegeses from the biology of Charles Darwin. The concept of the survival of the fittest was translated into social idiom, and the Social Darwinist taught that the competitive struggle selected superior over inferior biological types. Theorists like Herbert Spencer and William Graham Sumner disapproved of most charitable activities, public education and social insurance as vain efforts to contradict nature.

While such rigorous theories were dominant in the 19th century, other views were being developed as forerunners of important elements of our thinking today. The Germans, with less distaste for state intervention, were already studying economic institutions under the assumption that something could be done about the "natural" workings of economic laws. That assumption was rooted in theory, even if it did lead these economic institutionalists to emphasize observable phenomena over theory.

Outsiders were not the only ones to question the salutary character of pure laissez faire. Alfred Marshall, the great synthesizer of classical theory, was extremely conscious of welfare needs and considered the elimination of poverty as the chief function of an economy. The basis was thus being established for formulations of a mixed type.

The development of contemporary theory, with its pragmatic and specific character, has been most appropriately influenced by nontheorists. Real innovators of the old capitalism like Henry Ford

Martin Bronfenbrenner, Professor of Economics at Michigan State University, is now lecturing in Japan.

saw the vision and created the conditions of the new society. Inarticulate as he was, Ford was dealing with a tremendous theoretical force when he conceived of a mass production-mass consumption dialectic. In this case the thinker came after the fact; Joseph Schumpeter, the Austrian-born Harvard economist, developed a theory around the Fords, whom he celebrated as economic prime movers whose innovations were key factors for growth.

Major assertions

The theory of New Capitalism makes five major assertions:

•Economic growth is more important in the long run than economic welfare here and now. Labor would certainly enter an official denial, but its high living standard eliminates any deep bitterness in the disagreement.

•Imperfections in competition, particularly in price competition, are often justifiable in the long run. They permit the growth of companies to a point where economies of scale are advantageous; large firms are also able to invest heavily in research and development. Imperfect competition enables the companies that have actually introduced the innovations to win the financial rewards for their initiative.

•Important competitive areas remain, even if price competition is reduced and some firms grow to great size. A vigorous rivalry continues between one product and another: butter vs. margarine, steel vs. aluminum, air conditioning vs. summer cottages, and new vs. secondhand automobiles. Divisions within large firms like General Motors or Proctor & Gamble compete against each other. Major companies like Sears Roebuck and Du Pont are always trying to enter fields that incumbents have shown to be profitable.

•Outsiders share in the profits of big business in many ways besides the obvious case of stock ownership. The large companies pay the best wages, a fact that labor knows well. If big business makes matters difficult for small competitors, it also promotes poor men's sons to high executive positions, and it offers many opportunities for independent subcontractors and distributors. It forms the economic base on which are established a democratic educational system and a Social Security Administration.

•Government protection of the business interest can and should extend to the point of checking a recession or depression–before major losses are sustained. This is one of the New Capitalism's most dramatic shifts in ideology, and it distinguishes the new capitalist from his classic ancestor, who accepted bankruptcy as a nat-

ural event. Failures of big business, which can cause a loss of national confidence, must be avoided at almost any cost. Keynes was spokesman for this view.

Realities and abstractions

It is obvious that the theory of New Capitalism has a highly institutional character. In keeping with the pragmatic character of American attitudes, it represents a response to the objective realities of our country and owes only a limited obligation to logical abstractions. Nevertheless, these responses have been accompanied by efforts to articulate them in terms of more or less complete theories.

Ignoring most foreign influences and even the theoretical precedents offered by the German institutionalists, a vigorous school of American institutionalists arose to criticize, exhort and to suggest reforms. The most flamboyant leader was Thorstein Veblen, who looked on industry as God, and business as Satan. The implementation of his views would have meant wiping out the businessmen and permitting the country to be ruled by a soviet of technicians. If his positive suggestions were fantastic, the force of his criticism emphasized the need for business responsibility, now part of the new capitalist's creed. More or less chastened by compromise, his ideas continue to influence planners, technocrats and surviving New Dealers.

Two other groups of American institutionalists were more to the practical point of the New Capitalism. The Wisconsin group stems from John R. Commons, a Veblen contemporary who emphasized the importance of corporations, trade unions and farm organizations in making economic decisions. He believed that the power of the workers and farmers should be strengthened so that they might bargain for fair compromises with business. This meant a refusal to accept the idea of supply and demand equilibrium basic to the Old Capitalism.

Wesley Mitchell of Columbia University produced the least theoretical of the three types of American institutionalism. Struck by the paucity of statistical justifications for economic generalizations, he proposed a massive fact-finding operation and a truce on theoretical speculation until more evidence was available. His peacemaking was fortunately a failure–the world needs ideas too much and cannot wait until all the facts are in–but he found a most appropriate response to his other demand in the creation of the National Bureau of Economic Research. The Bureau's voluminous studies of business cycles, national income and financial institutions have been invaluable to the New

Capitalism. It is significant that two successive chairmen of the President's Council of Economic Advisers, R. J. Saulnier and Arthur F. Burns, have been Mitchell students with National Bureau backgrounds.

Critiques and comment

If the old capitalism has been subject to unremitting criticism, the New Capitalism has also been called to account. Three critiques deserve comment:

•The problem of secular inflation, which shows no signs of improvement, derives from hard-won advantages of the New Capitalism. Labor and agriculture have used the countervailing power to do more than justifiably improve their well-being; they have combined with business to raise all wages and prices at the expense of the unorganized consumer. A modern economy, composed of an uneasy triangle of full employment, strong pressure groups and stable prices, cannot keep the three sides intact at the same time. The present victim is price stability, and economists like Alvin Hansen and Seymour Harris are content to justify the situation and permit themselves to be called inflationists. Other proponents of the New Capitalism are willing to pay a wordy obeisance to stable prices, but they offer no new geometry for the problem and no willingness to attack the other sides of the triangle–full employment or the strength of interest groups.

•The New Capitalism does not meet all the basic needs of our society. John Kenneth Galbraith, who has advanced into pessimism from a previously hopeful reliance on countervailing power, recently published a book that attacks disproportions between private luxury and public need. Our system, he says, relies on artificial stimulation of demand to an unhealthy extent. The result is a treadmill of overextended credit and threatened overproduction. Public requirements like national defense, schools and roads are scanted to the benefit of enchromed automobiles and superfluous TV sets.

Galbraith concerns himself with a recognizable human instead of the abstract economic man of classic theory and the group man of the institutionalists, and demands that society give the individual full stature in any societal arrangement. This means less stress on productive efficiency and more attention to the uses of leisure and the cultivation of the mind. Galbraith would also try to preserve such economically "wrong" areas like rural New England and "wrong" occupations like pottery making, all for the sake of values that cannot be expressed in bookkeeping terms.

•The role of government has not been adequately defined. The fears of socialism have lost their urgency; indeed, Adolph A. Berle, Jr. says that the present situation is characterized not by creeping socialism but by galloping capitalism. The New Capitalism has accepted government intervention as a major tenet, but the government itself, the political parties and business have neither made up their own minds nor come to any common agreement on the extent and character of the federal powers.

Governmental self-doubts

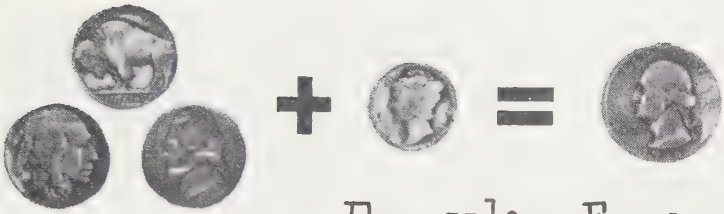
President Eisenhower's early efforts to favor private power and later attempts to pass on to the states some elements of federal responsibility are all based on governmental self-doubts. The anomalous position of the Federal Reserve Board and the great regulatory commissions also illustrates that insecurity.

Business condemns hampering regulations and demands privileges. On the other hand, important New Dealers have given up much of the intransigence they had displayed toward Big Business. David E. Lilienthal, former Chairman of the Tennessee Valley Authority, now directs a measure of mistrust at Big Government and is willing to confide the development of necessary social capital to business. But if Lilienthal's intellectual development is a sign of uncertainty, it also shows a hopeful willingness to recognize the different and shifting proportions of the New Capitalism.

No ideology can be a complete response to pragmatic needs, and we can accept the changes, doubts and dilemmas as examples of a healthy dynamic in American thought and life. The most advanced points seem to be occupied by Galbraith with his emphasis on human values, Berle, who calls for "lords spiritual" to stem the temporal powers, and the Columbia economic historian Karl Polanyi, who sees society reaching the stage where stability and freedom from strain become more important than production increases.

In his epilogue to *War and Peace,* Leo Tolstoy rejects the idea that a few intellectual giants shape the thought of their times. Lord Keynes, on the other hand, assures us that "madmen in authority" are merely "mouthing the scribblings of some defunct economist."

The truth lies somewhere between the two extremes but it is closer to Tolstoy's position. In many cases the professional economists wrote down the ideas that trailed after the actions of practical men. The New Capitalism is willing to learn from everybody. ■



Everyday Economics

■ OWNERS OF brick homes are often dismayed to find that the red bricks have suddenly acquired a white fuzz. This is brought about by the sun's effect on the powdery substance inside the brick. Sunshine liquifies and expands this powder, which rises to the brick's surface where it evaporates, leaving a residue of mineral salts. These deposits, allowed to linger for a while, will make the brick a premature victim of weathering. You can usually remove the crystals by hand with a wire brush. But for the more deeply imbedded ones, a power drill with wire-brush attachment may be necessary. To prevent this trouble, coat the brick's surface with a masonry-sealer paint that becomes invisible when dry.

One enough?

WITH THE colder weather, the problem of Asian flu may be with us again. For most people, one flu shot will be sufficient to give immunity for the season. The U.S. Public Health Service recommends a second shot for *special risk* cases–elderly people, pregnant women and those suffering from heart or pulmonary diseases.

Klondike caution

WITH ALASKA virtually a state, it pays to be a bit wary of the golden tales now being spread about profit possibilities there. Inflation is rampant, with prices averaging 40 to 50 per cent higher than in the rest of the U.S. Although small businesses are flourishing and there is plenty of opportunity, more than the usual amount of capital is required to get started –25,000 dollars for even the simplest of enterprises. U.S. military bases are important to the Alaskan economy, and any business geared to the military market must face the uncertainty of changing defense policies. Land can be bought for very little, but the clearing, labor and transportation costs are extremely high. Be suspicious of stock promoters

who offer to sell securities of new mineral-development firms. If you're really interested, there is no shortage of reputable companies in that line.

Cluttered mailbox

IF YOU have received some unsolicited merchandise through the mail, there is no reason for you to pay for it, or for that matter, return or acknowledge receipt of it. Usually, these wares are sales promotion inducements, and most companies have no intention of demanding payment or recovery. If you do get a follow-up letter implying a violation of the law, disregard it. The only way this firm can legally get its merchandise from you is by having one of its representatives personally call for it. At that time, you must comply, but under no circumstances can you be punished for refusing to return by mail any unordered product.

Keep it cool

SWEATERS should be washed individually in moderately cool water, so that the yarn will remain soft. When you rinse them, make sure that the water you use has the same temperature as the water used for washing. If you don't, the sudden change in temperature will cause shrinkage. To accelerate the drying, sandwich the sweater flatly between two Turkish towels and then press over it with a rolling pin or bottle.

Now in color

IF YOU think your ordinary passport photo is unflattering, you can stop fretting. A recent State Department ruling permits people to use colored prints for their official pictures. These photographs must be on a paper base, and be able to withstand temperatures of 180 degrees used in mounting the prints on documents. However, you cannot use tinted copies of a black-and-white likeness.

Service points

IN COMPETITIVE examinations for most civil service positions, veterans automatically have five or 10 points added to their scores. Five points go to any man who served in the armed forces during any war, while the extra five are reserved solely for disabled veterans. These extra points also entitle the holder to stand higher on the appointment lists. It is only for higher scientific and professional positions that these preferences do not apply.—L.B.

The Democratic Vista. Richard Chase. 180 pp. New York: Doubleday and Company. $3.95.

•A professor of English attempts to define the unique meanings of American life by means of suburban-Socratic dialogues. Prof. Chase's protagonists, representing practical-minded professors and enlightened businessmen, arrange neat answers to our basic problems but they fail to articulate the questions. Prof. Chase is commendably ambitious in concerning himself with the reality behind the symbols, inquiring, for example, about the effects of industrial conformity on the free spirit, and efficiency on esthetics. But his language and thought are formed of the material of the images he attempts to examine, and the result is too often a series of balanced tautologies, with phrases interposed between the inquirer and the material studied. Thus he disposes of the conservative spirit by remarking that America does not need it, a proposition that ought to disturb the nonconservatives.

* * *

Higher Education in Transition. John S. Brubacher and Willis Rudy. 494 pp. New York: Harper's $7.50.

•This earnest study details the physical growth of American universities with more effectiveness than it measures their values. Its account illustrates the dynamism of the institutions that were successful in meeting the demands of democracy in education. But the authors reflect the deficiencies when they ask: "Is not every important advanced study . . . at bottom vocational?" Critics of American education insist that precisely such a philosophy is at fault for the undistinguished record of American scholarship. What good is vocational training if we do not know why we are doing what we are trained to do? The mind cannot live by vocational training alone.

* * *

The Philosophy and Policies of Woodrow Wilson. Earl Latham, editor. 267 pp. University of Chicago Press. $5.00.

•A number of scholars tour the vast bulk of the Wilsonian ethos and announce some valuable sightings. Exemplar of the American intellect in action, Wilson told a reporter in 1916 that he had not "read a serious book through for 14 years." He supported the Clayton Antitrust Act and helped write the Federal Reserve Act despite a resolute ignorance of economics. With such limitations, Wilson had an in-

tellectual illumination that often gave him a better understanding of what was really happening than the experts had. Tragedy came when Wilson demanded too much of his prescience too far from home.

* * *

Eisenhower: Captive Hero. Marquis Childs. 310 pp. New York: Harcourt, Brace & Co. $4.75.

•The Childs thesis is that the President is held captive by a reluctance to make decisions and by his trust in advisers. But the policy that Childs presumes for Eisenhower seems more relevant to the author's than to the President's views. Childs has little documentation to support his description of Eisenhower's tenure as a captivity, and he is unable to make the supposed captors recognizable. Based on a shifting contemporaneity, the book is an example of a deadline-conscious journalism that has got ahead of itself.

* * *

Human Resources. Eli Ginzberg. 183 pp. New York: Simon and Schuster Inc. $3.75.

•Demands for our attention are so much with us in our modern world that emphasis on the obvious becomes a necessity. Prof. Ginzberg's subtitle, "The Wealth of a Nation," indicates his belief in the primacy of the human. He shows that we have been using that resource inefficiently, e.g., the number of illiterate Army rejectees. The solutions he suggests are more imaginative leadership, better education, more opportunities and improved child guidance. If the book is accepted as a pragmatic introduction to the problem, it need not be held to account for failing to consider the cultural needs of those human resources.

* * *

Philippine Freedom, *1946-1958.* Robert Aura Smith. 375 pp. New York: Columbia University Press. $5.00.

•This record of Philippine history demonstrates the unpreparedness of democratic ideals to cope with important problems of the 20th century. The author illustrates the fact that the Filipinos were not prepared for economic independence, nor even for the more preferable state of true economic *interdependence.* This factor detracts from the otherwise fine American record in the Philippines; it shows in near-parable form that our measure of democracy is too often short of reality.

* * *

Frontiers in Science. Edward Hutchings, Jr., editor. 362 pp. New York: Basic Books. $6.00.

•The accurate publisher's note says: "Thirty scientists active on the 'growing edge' of research explain their work and its implications." The divisions are "The Biological Sciences," "The Physical Sciences," and "Science and Society." The authors show that the frontiers are not new but a continuation of a classical development. The book is not intended to titillate; it presents no fanciful mirage of the future. It does fascinate, because it reveals the constancy of life which the scientist seeks. If it is true that a major obstacle to more rapid scientific advancement is the inarticulate scientist and an ignorant public, this book will help to overcome the handicap. ■

Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is good. Answers on page 19.

(1) Early labor unions obtained their greatest support from the common law.

True ☐ **False** ☐

(2) Stalin's successors have dissolved 25 Soviet ministries.

True ☐ **False** ☐

(3) Nearly 250,000 new nonagricultural enterprises are established annually in the U. S.

True ☐ **False** ☐

(4) The Federal Reserve regulates the operations of all financial institutions.

True ☐ **False** ☐

(5) The concept of such agencies as TVA and SEC is alien to American traditions.

True ☐ **False** ☐

(6) The results of wage negotiations between management and labor prove the validity of the theory of countervailing power.

True ☐ **False** ☐

(7) The Employment Act of 1946 is an expression of the spirit of the New Capitalism.

True ☐ **False** ☐

(8) The maximum tax rate for capital gains is now 30 per cent.

True ☐ **False** ☐

(9) John Dewey taught that social conflict could be eliminated by the application of scientific method.

True ☐ **False** ☐

(10) 135 American corporations own more than 50 per cent of the nation's industrial assets.

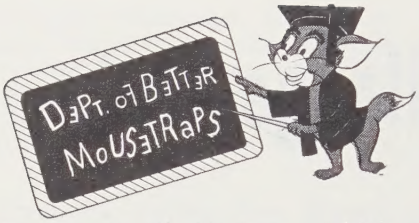
True ☐ **False** ☐

(11) Labor unions in most underdeveloped nations are appendages of political parties.

True ☐ **False** ☐

(12) The most important contributions to economic thought in the 20th century have come from conservative sources.

True ☐ **False** ☐



From the World of Industry: A high-speed mail sorter that handles 36,000 letters per hour . . . An electronic device that locates buried pipe, cables and conduits, and measures the depth at which these objects are buried . . . A nuclear process that makes wheat rust-resistant for nearly 100 years . . . Artificial soil that can be rolled on like a carpet . . . An environmental chamber that simulates stratospheric conditions for missile testing . . . A high-speed electrical "eraser" that deletes recorded sound or pictures from a complete tape or film.

* * *

Behind the Wheel: *Tire treading in a design that reduces the rumbling noise of heavy trucks . . . A gasoline hose rack that extends the length of the pump hose and prevents it from dragging on the ground.*

* * *

Personal Business: A wrap-around towel that stays put with snap fasteners after the bath or shower . . . Perfume dispensers that are as small as lipstick cases . . . Plastic caps that protect the lifts of women's shoes from wear, and keep heels from splitting . . . A transparent bandage that can be worn on the face, under hose and other exposed body areas; the medicated pad placed over the bruise is flesh colored . . . Nylon hosiery that will give extra support for aching legs caused by fatigue or varicose veins . . . To end the frustrating morning fumble through a drawer, a sock dispenser that holds seven rolled pairs and can be hung on a closet or bedroom wall.

* * *

For the Hazards of Slumber: *If your wife keeps complaining, an elastic chin strap that prevents snoring caused by open-mouthed breathing . . . A foam-rubber neck cradler that allows you to nap in a sitting position on those long auto, train or plane rides without the aftereffects of a stiff neck . . . A blanket-comforter that provides air circulation under the covers and eliminates irritating blanket pressure.*

* * *

Children's Corner: A gun-slinging game with an electronic timer that determines who is fastest on the draw . . . Spring-based, adjustable jumping shoes that permit junior to bounce along his merry way . . . A remote-control locomotive toy that runs on the floor or table top without tracks . . . A baby carriage that can be taken apart and reassembled in a matter of minutes.

* * *

Around the House: *An electric coffee pot with waterproof heating unit that can be submerged in a dishpan or washed in an automatic dishwasher . . . To eliminate a childhood hazard, a lock that prevents a plug from being placed in an electric outlet without a key . . . Cotton bed sheets and pillow cases that need no ironing . . . Metal shelf brackets that permit installation of an extra shelf above the existing one without having to use nails, screws or other fasteners . . . A converter that turns a faucet into a drinking fountain.*

* * *

Write to CHALLENGE magazine for additional information. ■